USA

JCPenney®

DC 94

J. C. PENNEY COMPANY, INC. *annual report* / 2000

OUR BUSINESSES

DEPARTMENT STORES AND CATALOG is comprised of approximately 1,100 domestic and international JCPenney department stores, which are located in all 50 states, Puerto Rico, and Mexico. Virtually all store locations have catalog desks. JCPenney Catalog, including the Company's web site, JCPenney.com, is the nation's largest catalog merchant of general merchandise. The Company also operates 49 Renner department stores in Brazil. Merchandise offerings for department stores and catalog consist of family apparel, jewelry, shoes, accessories, and home furnishings. In addition, through its department stores, the Company offers services including full-service salons, optical, portrait photography and custom decorating.

ECKERD DRUGSTORES is currently comprised of approximately 2,600 drugstores located in the Southeast, Sunbelt, and Northeast regions of the United States. Eckerd sells pharmaceutical and related products, photo processing, beauty lines, greeting cards, as well as general merchandise.

contents



ECKERD Get More!

it'sallinside.
JCPenney
stores catalog .com




With over 1,100 department stores, more than 2,600 drugstores, and the nation's largest general-merchandise catalog, the entire JCPenney organization shares one focus: the customer.

to our STOCKHOLDERS:

For JCPenney, our 2000 performance was disappointing. Neither our investors nor our associates can be happy with our performance last year. And our customers have let us know that we are out of focus – and out of favor.

Allen Questrom
Chairman of the Board
and Chief Executive Officer

The challenge of regaining focus and winning with customers is what attracted me to JCPenney. Throughout my 35-year retailing career, I've had the good fortune to help a number of retailers regain their footing and get back on course. Helping a company succeed is extremely satisfying work. Success unleashes tremendous energy that allows people to win.

As your Company's new Chairman of the Board and Chief Executive Officer, I am proud to be leading the efforts of nearly 270,000 JCPenney associates. As a team, we are focusing our efforts on the fundamentals of retailing. These fundamentals were our footprint for most of the prior 98 years; they continue to provide the blueprint for our future success.

a focus on the FUNDAMENTALS

Throughout our organization, we're making progress in ensuring a common understanding of who we are, the customers we target, and our place in today's competitive landscape. We know that:

- *Our business is about selling fashion at value prices. Our opportunity is to make sure that we have fashionable, high-quality merchandise at good prices. That's our history, and it is our future.*
- *For JCPenney department stores, our target customers are the middle of the customer population. Youthful in attitude though slightly older in age, they have a family household income in the range of $30,000 to $80,000.*
- *We compete with the department stores that share space with us in malls ... as well as with specialty retailers in malls ... and freestanding stores in strip centers. The competitive landscape is enormous, and we are placing an increased focus on the competitors in each local market that we serve.*

DEPARTMENT STORES *and* CATALOG

It's in our stores that our customers experience all that is JCPenney.

For JCPenney stores, our focus in 2001 will be on:

- *Competitive, fashionable merchandise assortments,*
- *Appealing and compelling marketing,*
- *Vibrant and energized store environments,*
- *A competitive expense structure, and*
- *An experienced and professional work force.*

It All Starts With Merchandise

We will provide customers with competitive, fashion-right, value-packed merchandise assortments throughout the store.

In February 2001 we moved from a decentralized to a centralized buying process. Centralization provides

BRANDS

CRAZY HORSE

SONY

STAFFORD EXECUTIVE

Levi's

Dominant merchandise assortments mean offering a compelling mix of desired national labels and our own recognized high-quality brands.

ST. JOHN'S BAY

WORTHINGTON®

advertising | MARKETING

Fashionable, energized, and more frequent marketing messages in print, TV, and direct mail will consistently entice and excite potential customers with our value-priced offerings.

essential procurement, cost, and flow efficiencies critical in today's competitive environment. In each merchandise area, we're improving our in-stock position, narrowing product assortments, and zeroing in on key items in the fashions, colors, and sizes that customers most want. We are dedicated to delivering this merchandise at prices that will consistently be perceived by our customers as strong values.

Next, the Marketing

We will have an appealing and compelling marketing presence aimed at generating customer traffic.

The change from a decentralized to a centralized merchandising process creates opportunity for compelling customer communication.

Consistent and tightly focused merchandise assortments allow us to place more urgent and effective messages before our customers. We will effectively marry the merchandise and marketing story. And we will increase the frequency and consistency of our printed communication efforts. In so doing, we fully leverage our position as a national department store.

An Appealing Place to Shop

We are updating the look of our stores so that they are more contemporary, exciting, and appealing.

We updated almost 130 stores during the past year. In 2001 we have plans to renew 125 more. For us, renew means better lighting, new paint, improved fixtures, and improved signage and graphics.

Creating a sense of excitement and energy in our stores depends, however, on more than paint and fixtures. It involves a combination of dominant merchandise statements presented with impact. It also means friendly and enthusiastic associates who are excited about providing the appropriate level of service for our customers.

Expense Control Is Critical

The ongoing challenge is to drive top-line growth and, at the same time, manage expenses. Here our objective is to think like a new company.

Today's competitive landscape demands an expense structure that delivers value to our customers and our shareholders. And we must also provide a competitive wage to our associates.

We will challenge every expense, yet spend where required so that we can be competitive with all three constituencies.

The Professional Team

The transition from a decentralized to a centralized merchandising process requires skilled and motivated professional merchants. That's why retaining, recruiting, and training talented merchants is a top priority for us. We are aggressively addressing this critical need in our organization.

In the crucial areas of Merchandise and Marketing, we have strengthened our leadership team by recruiting experienced executives for several key positions. These leaders will accelerate our ability to manage the processes that are new to JCPenney, but standard to the retailing industry.

Our goal is simple: We must have the right person – with the right skills and experience – in every job. Professional players allow teams to win.

CATALOG *and* INTERNET

In recent years we have tended to treat Catalog and

One of the first brick-and-mortar Internet retailers, JCPenney.com leverages Catalog's enormous infrastructure with dynamic sites tailored for our target customers.

The nation's largest mall-based operation with over 900 full-service locations and 17,000 licensed professionals, JCPenney Salon styled a 4.7% comparative sales gain in 2000.

Relaunched in 2000, the new personalized JCPenney credit card is managed by GE Capital, creating additional financing and services for customers in all our retail formats.

Internet as extensions of our stores. They are that, but they are not stores, but rather a business with needs and a dynamic of its own.

Our efficient Catalog infrastructure provides the necessary elements for this type of business to succeed in direct-to-consumer distribution. Whether in print media or e-commerce, we process over 68-million customer orders each year. That translates into more than $4 billion in annual revenue. Sales at JCPenney.com, the Internet portal of JCPenney, have grown from $15 million in 1998 to nearly $300 million in 2000. But, as expected, significant start-up expenses were associated with this growth.

We have recently hired two experienced catalog executives to lead this operation as a Catalog and Internet business.

For 2001, our Catalog objectives are focused on the following priorities:

- *Focus on Catalog and Internet as a complementary business with its own unique needs,*
- *Drive volume and profit,*
- *Balance Internet growth with profitability, and*
- *Manage operating expenses.*

ECKERD *drugstores*

We're very encouraged about Eckerd as a high-growth business.

Simple demographics demonstrate its great potential. Never in our country's history have there been as many older consumers as there are today. In fact, "baby boomers" now comprise nearly 30% of the American population, and they're living longer.

As the population ages, the demand for health and beauty aids increases. And drugstores are enjoying the benefit of unprecedented amounts of consumer advertising provided by the major drug companies, which creates strong customer demand.

And with major concentrations of stores in retirement areas such as Florida, Texas, and the Carolinas, we are in the right places at the right time.

This business has not performed up to its potential because we have not executed.

In October 2000, Wayne Harris, a seasoned veteran with extensive retailing experience, was elected Chairman and Chief Executive Officer of Eckerd Corporation. Wayne's vision, passion, and leadership have focused our Eckerd team on driving sales and providing good value for our customers.

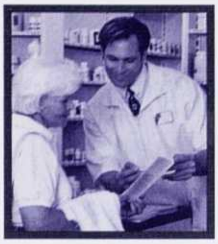
Independent consumer research confirms that: Eckerd enjoys convenient store locations; pharmacy is a core strength; and Eckerd Express Photo is regarded as convenient and important to our customers.

For Eckerd stores, an emphasis in 2001 will include:

- *A pricing and marketing plan aimed at creating a value proposition that will build customer loyalty and repeat business,*
- *A store refresh and reconfiguration plan to significantly improve the sales and mix opportunities in our stores,*
- *Technology enhancements geared toward both top- and bottom-line benefits in both pharmacy and the front end, and*
- *A dedication to expense reduction.*

Pricing and Marketing

Eckerd will represent a sustainable value proposition to the customer. Items that are most important to our customers will be priced right everyday. Customers will come to know that basic values will be



Strongly represented with freestanding stores in key retirement areas, Eckerd is well-positioned to serve the health needs of an aging population.

Our special promises assure professionalism and customer satisfaction with beauty lines, greeting cards, Eckerd brands, product freshness, photo processing, and pharmacy care.

An innovative Eckerd brand created for everyday women, Mira is the only cosmetics line to donate a percentage of an entire line's profits to charity.

available on every shopping trip.

Eckerd's 28-million weekly circulars, our main advertising vehicle, will be enhanced with a prominent and consistent emphasis on pharmacy, photo, and key consumables. We will use our advertising and in-store promotional efforts to do a more effective job of telling our pharmacy story: that we are concerned for the health and well-being of our customers.

Photo processing will become more important to customers as we launch our new everyday pricing for both 1-hour express and overnight processing. Excellent pricing, coupled with high-quality processing, will attract new shoppers.

Competitive pricing on diapers and infant formula will form the foundation for targeting younger shoppers with growing families. A focus on baby care products and our "Baby Club" marketing plan are parts of our strategy to make Eckerd a shopping destination for younger families. This allows us to grow our customer base.

The "Refresh" and "Reconfiguration" Plan

We will be remodeling and reconfiguring our stores.

We plan to remodel about 300 stores in 2001. For Eckerd, remodeling, or what we call "refresh," means new paint, new floors, new graphics, new service counters, expanded photo desks, and expanded pharmacies.

We also plan to reconfigure almost 300 stores built over the past four years. Reconfiguration means changing the traffic patterns in the store and increasing the shelf capacity for appropriate assortments.

The objective is to provide customers with the incentive to shop the entire store, which translates into higher sales and more profits.

Improvements in Technology

Technology represents opportunity for Eckerd throughout the Company.

Prominent examples for 2001 include the technology-based "Pharmacy Vision Strategy," which will offer enhancements aimed at improving customer service, gaining pharmacy efficiencies, and improving gross margin. And a project we call "Quantum Leap" will provide improvements in item management by store, inventory control, and lower shrinkage. This will lead to improvements in top-line sales and gross margin.

Expense Reduction

We are dedicated to driving costs down across the board. The goal is to get expenses in line so that we can provide excellent value, quality, and service to our customers.

We believe that the best years are ahead of us at Eckerd.

INTERNATIONAL

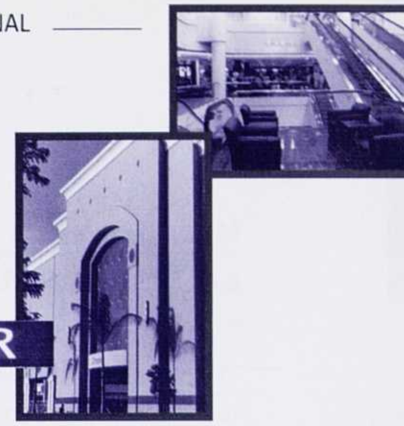
We are committed to our international business with a strategic emphasis on Brazil.

Brazil affords us a fascinating retailing opportunity. We entered the Brazilian market through an acquisition of 21 stores from Lojas Renner S.A. in January 1999. Additional existing real estate became available in late 1999, and we now have 49 stores in this market, including 21 in the second-largest city in the Western Hemisphere, São Paulo.

Our stores in Brazil have exciting and fashion-

With a focus on quality and everyday excellent pricing, Express Photo 1-hour processing is a premier service for all families.

Exciting, successful full-line department stores in Brazil, Mexico and Puerto Rico are led by very talented local merchandise teams.



able merchandise allowing them to be competitive in their marketplace and highly successful – a tribute to the professional management team we have in place there.

Mexico, too, provides opportunity. In March 2000, we successfully opened our third store in this market, in Mexico City's World Trade Center. We will open three additional full-line stores, one each in Chihuahua, Mérida, and Cancún during the second half of 2001.

We have been in Puerto Rico for over 30 years and will focus on strengthening our competitive position in the face of explosive growth in the competitive environment.

financial CONDITION

Free cash flow in 2000 was strong at approximately $600 million. 2001 began with approximately $1 billion of cash investments.

We recently have signed a definitive agreement with AEGON N.V. for the sale of J. C. Penney Direct Marketing Services, Inc. We expect to complete this transaction around midyear and will receive cash proceeds at closing of approximately $1.3 billion. At the same time we also established a 15-year strategic marketing alliance with AEGON N.V. designed to offer an expanded range of financial and membership services products to JCPenney customers. Under this arrangement, we estimate that we will receive annual cash payments that could add up to $300 million over the 15-year term. We anticipate that the majority of the closing proceeds will be used for debt reduction opportunities.

In combination with the approximate $1 billion of cash investments on hand at the beginning of this year and the closing proceeds, we will have liquidity sufficient to satisfy our financing needs well into the future.

A key near-term goal is to continue to manage our financial condition so that we consistently generate positive free cash flow. During the course of 2000, improvements in inventory productivity were the most important contributor to free cash flow. The new centralized merchandising process will further improve our inventory productivity.

Our target of $500 million in capital expenditures in 2001 is planned as a balanced approach between funding future growth and providing an appropriate level of free cash flow for liquidity purposes. While the absolute level of spending is less than prior years, we are giving priority to projects that "face the customer," such as store updates and renewals and those that positively impact profitability in the near term.

in SUMMARY

As an American retailing icon nearing the century mark, this Company has a great history. We've faced and conquered many challenges over the years. You should be assured that this Company has the necessary resources, grit, and determination to win again. We are making the changes required to respond to today's constantly evolving competitive landscape and to produce the return you expect for your investment.

Sincerely,

Allen Questrom
Chairman of the Board
and Chief Executive Officer

Management's Discussion and Analysis of Financial Condition and Results of Operations

The discussion and analysis that follows, consistent with all other financial data throughout this Annual Report, focuses on the results of operations and financial condition from the Company's continuing operations and reflects the reclassifications for rent and occupancy costs from cost of goods sold to selling, general and administrative expenses (SG&A), and for catalog shipping and handling fees charged to customers and associated costs, which were reclassified from SG&A to sales and cost of sales, respectively. See page 18 for further discussion of reclassifications. This discussion and analysis should be read in conjunction with the accompanying consolidated financial statements and notes thereto and the five year financial summary.

Discontinued operations. On March 7, 2001, the Company signed a definitive agreement with a U.S. subsidiary of AEGON N.V. (AEGON) to sell the assets of its J. C. Penney Direct Marketing Services, Inc. (DMS) business, consisting of the stock of its insurance subsidiaries and related businesses. The Company will receive cash proceeds at closing of approximately $1.3 billion plus settlements from intercompany accounts. The sale generated a book loss, net of tax of $296 million.

The Company's financial statements, footnotes and other information provided in this Annual Report reflect DMS as a discontinued operation for all periods presented.

Concurrent with the closing, the Company will enter into a 15-year strategic marketing alliance with AEGON N.V. designed to offer an expanded range of financial and membership services products to JCPenney customers. Under this agreement, the Company will receive annual cash payments over the next 15 years pursuant to the terms of licensing and marketing services arrangements. The present value of these cash payments is estimated to be up to $300 million and such amounts will be recognized as earned in the Company's financial statements.

Consolidated Results of Operations

($ in millions except EPS)	2000	1999	1998
Segment operating profit/(loss)			
Department stores and catalog	$ 254	$ 670	$ 920
Eckerd drugstores	(76)	183	254
Total segments	178	853	1,174
Corporate and other unallocated	(27)	13	18
Net interest expense and credit operations	(427)	(294)	(387)
Acquisition amortization	(122)	(125)	(112)
Restructuring and other charges, net	(488)	(169)	22
(Loss)/income from continuing operations before income taxes	(886)	278	715
Income taxes	(318)	104	277
(Loss)/income from continuing operations	$ (568)	$ 174	$ 438
(Loss)/earnings per share from continuing operations	$ (2.29)	$ 0.54	$ 1.58

Loss from continuing operations in 2000 totaled $568 million, or $2.29 per share, compared with income from continuing operations of $174 million, or $0.54 per share and $438 million, or $1.58 per share, in 1999 and 1998, respectively. Over the past several years, the Company has implemented a number of initiatives to improve its competitive position and future financial performance, including closing underperforming stores, reducing headcount in the corporate offices as well as in field operations, and centralizing the merchandising process in department stores and catalog under the ACT (Accelerating Change Together) initiative. These initiatives, along with the integration of several drugstore formats with the Eckerd Corporation (Eckerd) drugstore business acquired in 1997, have resulted in non-comparable items for each of the three years presented. These non-comparable items are shown on the following page. Before the effects of these items, (loss) or earnings per share (EPS) would have been $(0.44), $1.36, and $1.81, for 2000, 1999 and 1998, respectively. All references to EPS are on a diluted basis.

($ in millions except EPS)	2000 Pre-tax $	2000 EPS	1999 Pre-tax $	1999 EPS	1998 Pre-tax $	1998 EPS
(Loss)/earnings from continuing operations before the effects of non-comparable items	$ (135)	$ (0.44)	$ 586	$ 1.36	$ 807	$ 1.81
Restructuring and other charges, net						
JCPenney store closings	(206)		—		—	
Eckerd drugstore closings	(111)		—		—	
Asset impairments	(91)		(240)		—	
Contract cancellations	(84)		—		—	
Headcount reductions	(35)		—		—	
Gain on the sale of assets	13		55		—	
Adjustments to prior period restructuring reserves and other	26		16		22	
Total restructuring and other charges, net	(488)	(1.19)	(169)	(0.48)	22	0.05
Other non-comparable items						
Department store incremental markdowns	(92)		—		—	
Eckerd inventory adjustments	(104)		(74)		(98)	
Incremental Eckerd integration and other costs	(12)		(45)		(16)	
Centralized merchandising process costs (ACT)	(55)		—		—	
Revenue recognition	—		(20)		—	
Total other non-comparable items	(263)	(0.66)	(139)	(0.34)	(114)	(0.28)
Total non-comparable items	(751)	(1.85)	(308)	(0.82)	(92)	(0.23)
(Loss)/income from continuing operations	$ (886)	$ (2.29)	$ 278	$ 0.54	$ 715	$ 1.58

Earnings from continuing operations in 2000 before the effects of all non-comparable items were significantly lower than the prior two years due to a decline in the operating performance of department stores and catalog as well as Eckerd drugstores. Sales in department stores and catalog in 2000 declined $558 million, or 2.9% from 1999, 2.3% on a comparable store basis, and were accompanied by a significant decline in gross margin. While total sales for Eckerd improved, comparable store non-pharmacy merchandise sales were flat with last year. Weak non-pharmacy merchandise sales, coupled with lower gross margin and increased selling, general and administrative (SG&A) expenses in 2000 resulted in a significant decline in Eckerd operating profit.

Non-comparable items. Restructuring and other charges are discussed in more detail in Note 14 on page 25.

Fiscal 2000. The Company's results were impacted by the effects of non-comparable items totalling $751 million net, as follows:

Restructuring and other charges, net ($488 million)

- JCPenney store closings ($206 million) – During fiscal 2000, 92 underperforming stores were approved for closing. These stores generated sales of approximately $950 million and incurred operating losses of $28 million in fiscal 1999. The Company's estimate for transfer sales to nearby JCPenney stores is approximately $160 million. By the end of 2000, 48 stores were closed, and the remainder are expected to be closed by the end of 2001. The charge was recorded for fixed asset impairments ($113 million), present value of future lease obligations ($77 million) and employee severance costs ($16 million).
- Eckerd drugstore closings ($111 million) – 279 drugstores were approved for closing under the Eckerd store closing

plan. These stores generated sales and operating losses of approximately $650 million and $30 million, respectively, in fiscal 1999. 274 of these stores were closed by the end of 2000, and the remainder are expected to be closed by the end of first quarter 2001. Charges were comprised of present value of future lease obligations ($90 million), employee severance costs ($4 million) and other exit costs ($17 million).

- Asset impairments ($91 million) – Asset impairments include $64 million for 13 department stores that, due to restrictive covenants, will remain open, $14 million for Eckerd assets related to relocated stores, and $13 million for non-strategic business investments, including the Eckerd e-commerce web site.
- Contract cancellations ($84 million) – Cancellations include termination fees and asset impairments associated with Eckerd's contract with its information technology service provider ($72 million) and a buyout fee for the remaining lease obligations ($12 million) related to a cancelled JCPenney hardware contract.
- Headcount reductions ($35 million) – Approximately 995 home office and field positions for both department stores and catalog and Eckerd drugstores were eliminated.
- Gain on the sale of assets ($13 million) – A gain was recognized on the sale of notes receivable that had been issued in 1997 in connection with the divestiture of certain drugstores pursuant to an agreement with the Federal Trade Commission.
- Adjustments to prior period restructuring reserves and other (net credit of $26 million) – Actual costs were less than previously estimated.

Other non-comparable items ($263 million)

- Department store incremental markdowns ($92 million) – represented incremental markdowns recorded in cost of goods sold on discontinued merchandise from the decision to narrow the merchandise assortment as a result of the centralization of the merchandising process (ACT).
- Eckerd inventory adjustments ($104 million) – represented incremental markdowns recorded in cost of goods sold on discontinued merchandise in order to reposition the merchandise mix ($43 million), and to liquidate merchandise under the store closing plan ($61 million).
- Incremental Eckerd other costs ($12 million) – represents costs incurred for store closing activities in connection with the store closing plan.
- Centralized merchandising process (ACT) costs ($55 million) – represents costs associated with ACT, a fundamental rebuilding of the department store and catalog merchandising process and organization, creating a centralized buying organization. ACT requires process and organizational restructuring throughout the Company's corporate and field structure. Total expenditures associated with this initiative are expected to be approximately $150 million, including approximately $26 million that have been or will be capitalized. Approximately half of the costs were incurred in fiscal 2000.

Fiscal 1999. The Company's results were impacted by non-comparable items totalling $308 million, net, as follows:

Restructuring and other charges, net ($169 million)

- JCPenney stores asset impairments ($130 million) – Charge represents the excess of the carrying values of the assets, including intangible assets, over fair values, related to 10 stores, the majority of which were acquired in 1995 in the Washington, D.C., market.
- Eckerd asset impairments ($110 million) – Charge represents the excess of the carrying values of the assets, including intangible assets, over fair value related to underperforming stores that were closed in fiscal 2000.
- Gain on the sale of assets ($55 million) – In December 1999, the Company sold its proprietary credit card accounts and receivables to General Electric Capital Corporation and its subsidiaries (GE Capital). For more information about this transaction, see Note 4.
- Adjustments to prior year restructuring reserves (net credit of $16 million) – Actual costs were less than previously estimated.

Other non-comparable items ($139 million)

- Eckerd inventory adjustments ($74 million) – As a result of the integration of the Company's several drugstore formats, a cost of goods sold adjustment of $74 million was recorded in the second quarter of 1999 to reflect the difference between the estimated value of book inventories and physical inventories that were completed by the end of the second quarter.
- Incremental Eckerd integration and other costs ($45 million) – Incremental costs incurred to upgrade the communications system that linked all drugstores with Eckerd's home office. In addition, related to the integration of the drugstores, certain allowances for the collectibility of accounts receivable and insurance reserves were adjusted.
- Revenue recognition ($20 million) – In the fourth quarter of 1999, in response to the guidance provided by SEC Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," the Company changed certain revenue recognition policies affecting stores and catalog. A $20 million charge to cost of goods sold was recorded for the cumulative effects of the changes.

Fiscal 1998. The Company's results were impacted by non-comparable items totalling $92 million, net. Adjustments (net credit of $22 million) were made to prior year restructuring reserves. Actual costs were less than previously estimated. Other non-comparable items ($114 million) consisted of the following:

- Eckerd inventory adjustments ($98 million) – Incremental adjustments to cost of goods sold were primarily related to the disposition of non-conforming merchandise as a result of the integration of several drugstore formats.
- Incremental Eckerd integration and other costs ($16 million) – Incremental integration costs related primarily to the complexities of combining three separate accounting systems into one system.

Department Stores and Catalog Operating Results

($ in millions)	2000	1999	1998
Retail sales, net	$ 18,758	$ 19,316	$ 19,436
FIFO gross margin	5,978	6,536	6,600
LIFO (charge)/credit	(14)	9	35
Total gross margin	5,964	6,545	6,635
SG&A expenses	(5,710)	(5,875)	(5,715)
Segment operating profit	$ 254	$ 670	$ 920
Gross margin impact from non-comparable items	$ 92	$ 20	$ –
Sales percent inc/(dec)			
Department stores	(2.9)%	(1.3)%	(3.1)%[1]
Comparable stores	(2.4)%	(1.1)%	(1.9)%
Catalog	(2.7)%	1.9%	0.4%[1]
Ratios as a percent of sales:			
FIFO gross margin	31.9%	33.8%	34.0%
LIFO gross margin	31.8%	33.9%	34.1%
SG&A expenses	30.4%	30.4%	29.4%
LIFO segment operating profit	1.4%	3.5%	4.7%
LIFO EBITDA[2]	3.3%	7.1%	7.8%
Ratios as a percent of sales, before the effects of non-comparable items:			
FIFO gross margin	32.4%	33.9%	34.0%
LIFO gross margin	32.3%	34.0%	34.1%
SG&A expenses	30.4%	30.4%	29.4%
LIFO segment operating profit	1.8%	3.6%	4.7%
LIFO EBITDA[2]	3.8%	7.2%	7.8%

(1) Calculated on a 52-week basis to exclude the effect of the 53rd week of 1997's full year.

(2) EBITDA includes segment operating profit before depreciation and amortization and including credit operating results in 1999 and 1998. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

The following discusses the operating results of department stores and catalog before the effects on gross margins of non-comparable items, as discussed previously, to provide more meaningful comparisons.

2000 compared with 1999. Segment operating profit for department stores and catalog was $346 million in 2000 compared with $690 million in 1999. The decline for the year was attributable to decreases in both sales and gross margin. Gross margin declined as a result of higher markdowns required to clear seasonal merchandise, and promotional activity intended to stimulate sales. The promotional activity became particularly heavy in the fourth quarter as the economy slowed.

Total department store sales of $14.6 billion declined by 2.9% for the year while sales in comparable department stores (those open at least one year) declined by 2.4%. The largest sales declines were in athletic apparel, where sales have declined 60% since they peaked in 1997. In addition, young men's sportswear sales decreased and were impacted by a decline in demand for shorts and particular brands of jeans. Included in total department store sales are sales in the Company's international stores which totaled $547 million in 2000, compared to $432 million in 1999, an increase of 26.6%. This increase is primarily the result of the addition of 14 Renner stores in Brazil. Catalog sales were $4.2 billion in 2000 compared with $4.3 billion in 1999. Internet merchandise sales, which are reported as a component of Catalog sales, increased to $294 million, from $102 million in 1999.

LIFO gross margin as a percent of sales declined by 170 basis points compared with 1999 levels. The margin decline was due primarily to higher levels of promotional and clearance markdowns, particularly in the fourth quarter. In addition, gross margin was impacted by the implementation of centralized pricing decisions for aged and seasonal merchandise under the new ACT centralized merchandising process. Under this process, clearance decisions, both in terms of timing and pricing, are made by the central buying unit rather than by approximately 1,100 individual stores. Gross margin included a LIFO charge of $14 million in 2000 and a LIFO credit of $9 million in 1999. The LIFO charge in 2000 resulted from declines in higher cost inventory added in prior years. The LIFO credit for 1999 resulted from a combination of flat to declining retail prices as measured by the Company's internally developed inflation index.

SG&A expenses decreased by $165 million, but were flat with last year when compared as a percentage of sales. The dollar improvement was primarily a result of cost savings initiatives, including outsourcing and process redesign, implemented over the last several years.

1999 compared with 1998. Segment operating profit for department stores and catalog totaled $690 million in 1999, compared with $920 million in 1998. The decline for the year was attributable primarily to lower sales volumes in department stores. Total department store sales of $15 billion declined 1.3% for the year while sales in comparable department stores declined by 1.1%. Sales were also impacted by the exit from the Chilean market in 1999's third quarter. Catalog sales were approximately $4.3 billion in 1999 and $4.2 billion in 1998. Internet merchandise sales, reported as a component of catalog sales, increased from $15 million in 1998 to $102 million in 1999.

LIFO gross margin as a percent of sales declined by 10 basis points compared with 1998 levels. This was primarily a result of a LIFO credit of $9 million in 1999 compared to a LIFO credit of $35 million in 1998. Higher levels of promotional and clearance markdowns in the fourth quarter were partially offset by a shift in sales to higher margin private brands.

LIFO credits for both years resulted from a combination of flat to declining retail prices as measured by the Company's internally developed inflation index and improved markup.

SG&A expenses increased by 100 basis points as a percent of sales versus 1998. The increase was principally a function of lower sales volume coupled with additional investments in Internet infrastructure and higher selling salaries in department stores.

Eckerd Drugstores Operating Results

($ in millions)	2000	1999	1998
Retail sales, net	$ 13,088	$ 12,427	$ 10,325
FIFO gross margin	2,906	2,965	2,550
LIFO charge	(55)	(52)	(45)
Total gross margin	2,851	2,913	2,505
SG&A expenses	(2,927)	(2,730)	(2,251)
Segment operating (loss)/profit	$ (76)	$ 183	$ 254
Gross margin impact from non-comparable items	$ 104	$ 74	$ 98
SG&A impact from non-comparable items	12	45	16
Sales percent increase:			
Total sales	5.3%	20.4%	8.9%[1]
Comparable stores	8.5%	10.7%	9.2%
Ratios as a percent of sales:			
FIFO gross margin	22.2%	23.9%	24.7%
LIFO gross margin	21.8%	23.5%	24.3%
SG&A expenses	22.4%	22.0%	21.8%
LIFO segment operating (Loss)/profit	(0.6)%	1.5%	2.5%
LIFO EBITDA[2]	1.0%	3.0%	3.8%
Ratios as a percent of sales, before the effects of non-comparable items:			
FIFO gross margin	23.0%	24.5%	25.6%
LIFO gross margin	22.6%	24.0%	25.2%
SG&A expenses	22.3%	21.6%	21.6%
LIFO segment operating profit	0.3%	2.4%	3.6%
LIFO EBITDA[2]	1.9%	4.0%	4.9%

(1) Calculated on a 52-week basis to exclude the effect of the 53rd week of 1997's full year.

(2) EBITDA includes segment operating profit before depreciation and amortization. EBITDA is provided as an alternative assessment of operating performance and is not intended to be a substitute for GAAP measurements. Calculations may vary for other companies.

The following discussion reviews Eckerd drugstores operating results before the effects on gross margin and SG&A of non-comparable items, as discussed previously, to provide more meaningful comparisons.

2000 compared with 1999. Segment operating profit for drugstores in 2000 was $40 million compared with $302 million in 1999. The decline in operating profit was attributable to weak non-pharmacy merchandise sales, coupled with lower gross margin and increased SG&A expenses. Sales for 2000 increased 5.3% over 1999. Total sales in 1999, which included sales from the Genovese drugstores acquired in March 1999, increased by 20.4% over the prior year. Comparable store sales increased 8.5%, compared to a 10.7% increase in the prior year (including the pro forma results of the Genovese drugstores). Comparable store sales growth for 2000 was led by a 14% increase in pharmacy sales, which accounted for 64% of total drugstore sales. Pharmacy sales were particularly strong in the managed care segment, which accounted for 89% of total pharmacy sales. Comparable non-pharmacy merchandise sales were flat for the year and were strongest in one-hour photo processing, skin care/fashion accessories and toiletries. Sales for 2000 benefited from the relocation of 136 stores to more convenient freestanding locations.

LIFO gross margin, as a percent of sales, declined by 140 basis points. The decline was principally related to a higher proportion of lower gross margin managed care and mail order pharmacy sales and a reduced level of higher-margin general merchandise sales. Gross margin included LIFO charges of $55 million in 2000 and $52 million in 1999.

SG&A expenses as a percent of sales increased by 70 basis points. Expenses in 2000 were negatively impacted by the higher expense levels associated with the opening of new and relocated drugstores. Expenses in 1999 reflect integration costs for the Genovese acquisition as well as costs associated with opening new and relocated stores.

1999 compared with 1998. Segment operating profit for drugstores in 1999 was $302 million compared with $368 million in 1998. The decline in operating profit was attributable to both lower gross margin and higher SG&A expenses.

Total sales for 1999 increased by 20.4% over 1998 and include approximately $830 million in sales attributable to the Genovese drugstores acquired in March 1999. Comparable store sales were strong, increasing 10.7% (including the pro forma results of the Genovese drugstores) compared to a 9.2% increase in 1998. Comparable store sales growth was led by a 15.6% increase in pharmacy sales, which accounted for 62% of total drugstore sales. Comparable store non-pharmacy sales increased approximately 3% for the year. 1999 sales also benefited from the relocation of 208 stores to more convenient freestanding locations.

LIFO gross margin, as a percent of sales, declined by 120 basis points. The decline was principally related to a higher proportion of lower gross margin managed care and mail order pharmacy sales, a higher percentage of new, lower-margin drug introductions, and higher shrinkage. Gross margin included LIFO charges of $52 million in 1999 and $45 million in 1998.

SG&A expenses as a percent of sales in 1999 were flat with 1998.

Net Interest Expense and Credit Operations

($ in millions)	2000	1999	1998
Finance charge revenue, net of operating expenses	$ —	$ (313)	$ (224)
Interest expense, net	427	607	611
Net interest expense and credit operations	$ 427	$ 294	$ 387

Net interest expense and credit operations totaled $427 million in 2000 compared with $294 million in 1999 and $387 million in 1998. 1999 includes the Company's proprietary credit card operation through December 6, 1999, when the operation was sold to GE Capital. 1998 includes the proprietary credit card operation for the full year. Interest expense declined in 2000 primarily as a result of the reduction in short-term debt from the proceeds of the sale of the proprietary credit card receivables. Also during 2000, $805 million of long-term debt was retired or paid off. In addition, borrowing levels were lower due to declines in inventory levels. The improvement from 1998 to 1999 in finance charge revenue was related to improvements in credit operating performance, principally lower bad debt expense.

Income taxes. The overall effective tax rate was (35.9%), 37.4% and 38.7% in 2000, 1999 and 1998, respectively. In the prior two years, the rate was favorably impacted by tax planning strategies that significantly reduced state and local income tax rates. Due to the loss from continuing operations in 2000, certain tax planning benefits were not utilized. Losses that resulted from these benefits will be carried forward to future years. Based on the short time periods for carryforwards in certain states, a valuation allowance of $60 million was established for those benefits not expected to be realized.

Financial Condition

Liquidity. The Company began 2000 with a cash position of $1.2 billion. In a difficult year, after meeting all of its cash requirements for capital expenditures, dividends and repayments of long-term debt, the Company ended the year with a cash balance of approximately $1 billion. Cash flow from operating activities was $1.5 billion in 2000 compared with $1.1 billion in 1999 and $0.9 billion in 1998. Efforts to reduce inventory levels and to secure more competitive terms with vendors, as well as declines in cash capital expenditures, had a positive impact on cash flow for the year. While net income has declined in recent years, cash flow has remained strong. Over the past several years, results have been impacted by non-cash charges relating to store closings and asset impairments as well as non-cash charges for the amortization of goodwill and other intangible assets related to drugstore acquisitions. Operating cash flow in 2000 benefited significantly from the decline in inventory levels, net of trade accounts payable. Cash flow from operations in fiscal 2000 was sufficient to fund the Company's operating needs – working capital, capital expenditures and dividends. Management expects cash flow and existing cash balances to cover the Company's operating needs, including payments related to restructuring reserves, for the foreseeable future. The Company's liquidity position at the end of 2000, coupled with the expected proceeds from the sale of DMS as well as other sources of funding, are adequate to cover debt maturities over the next several years. Although its credit ratings have declined over the past two years, the Company's liquidity position improved with the sale of its proprietary credit card receivables in 1999. The Company's liquidity position will be further strengthened upon the expected mid-year 2001 closing of the sale of DMS which is expected to generate cash proceeds after tax of approximately $1.1 billion. It is anticipated that these proceeds will be used primarily for debt reduction. Additionally, the Company has $1.5 billion in unused committed bank credit facilities, which will remain in effect until November 2002.

Merchandise inventory. Total LIFO inventory was $5,269 million in 2000 compared with $5,947 million in 1999 and $6,060 million in 1998. FIFO merchandise inventory for department stores and catalog was $3,289 million at the end of 2000, a decrease of 13.6% on an overall basis and approximately 13% for comparable stores, compared with the prior year. The decline was primarily the result of the Company's efforts to streamline inventory, improve the productivity of the merchandise assortments and improve the efficiency of the procurement process, all leading to increased inventory turnover. In addition, the conversion in department stores to a centralized buying process emphasized clearing seasonal, aged and other unproductive inventory. Eckerd FIFO merchandise inventory was $2,319 million at the end of 2000, a decrease of 4% compared with the prior year. The decrease was related to the decline in the number of Eckerd drugstores as well as an emphasis on repositioning the Eckerd merchandise mix.

Properties. Property, plant and equipment, net of accumulated depreciation, totaled $5,114 million at January 27, 2001, compared with $5,271 million and $5,415 million at the end of fiscal 1999 and 1998, respectively.

At the end of 2000, the Company operated 1,111 JCPenney department stores (including three stores in Mexico and eight in Puerto Rico), 49 Renner department stores in Brazil and 2,640 Eckerd drugstores, which together represented approximately 141 million gross square feet of retail space. The number of JCPenney department stores has declined recently principally as a result of the closing of underperforming stores over the last three years. Over the last three years, the number of Eckerd drugstores reflects the addition of 141 new stores, and 205 acquisitions, principally Genovese drugstores acquired in March of 1999, and the closing of 484 underperforming and overlapping stores during the conversion of former drugstore formats to Eckerd.

Capital expenditures. Capital expenditures, including capitalized software costs, during the past three years are as follows:

($ in millions)	2000	1999	1998
Department stores and catalog	$ 398	$ 344	$ 460
Eckerd drugstores	301	325	283
Total	$ 699	$ 669	$ 743
Cash capital expenditures	$ 648	$ 686	$ 776

2000 capital spending levels for property, plant and equipment increased from 1999 levels principally as a result of emphasis placed on systems development. The Company's plan for capital expenditures in 2001 is approximately $500 million ($325 million for department stores and catalog, and $175 million for Eckerd), and is designed to provide a balance between funding future growth and an adequate level of cash flow for liquidity purposes. While the absolute level of spending is less than prior years, priority is being given to maximize the allocation of capital to those projects which directly impact the customer and will positively impact profitability in the near term, such as store updates and renewals in both department stores and Eckerd drugstores.

Acquisitions. The Company has completed several acquisitions in recent years as noted below. In all cases, the purchase price was allocated to assets acquired and liabilities assumed based on estimated fair values. All acquisitions have been accounted for under the purchase method. Accordingly, their results of operations are included in the Company's statements of operations as of the date of the acquisition.

In March 1999, the Company completed the acquisition of Genovese Drug Stores, Inc. (Genovese), a 141-drugstore chain with locations in New York, New Jersey and Connecticut. The acquisition was accomplished through the exchange of approximately 9.6 million shares of JCPenney common stock for the outstanding shares of Genovese, and the conversion of outstanding Genovese stock options into approximately 550 thousand common stock options of the Company. The total value of the transaction, including the assumption of $60 million of debt, was $414 million, of which $263 million represented goodwill.

The Company completed the acquisition of a majority interest in Lojas Renner S.A. (Renner), a 21-store Brazilian department store chain, in January 1999. The total purchase price was $139 million, of which $67 million represented goodwill.

Goodwill and other intangible assets. At the end of 2000, goodwill and other intangible assets, net, totaled $2,870 million, compared with $2,999 million in 1999 and $2,879 million in 1998. Intangible assets consist principally of favorable lease rights, prescription files, trade name and goodwill, representing the excess of the purchase price over the fair value of net assets acquired.

The Company believes the remaining balance of goodwill, which relates principally to its drugstore acquisitions, at January 27, 2001, is recoverable. The Company's ability to fully recover the carrying amount of goodwill through undiscounted future cash flows assumes that results of operations will improve from current levels and provide positive cash flows in future periods greater than current results. However, should events or economic conditions arise that hinder the Company's ability to achieve its business objectives, a portion of the goodwill may become impaired in the near term, and such amount of impairment may be material.

Debt to Capital

($ in millions)	2000	1999	1998
Debt to capital percent	56.8%	54.5%	63.0%*

** Upon completion of the Genovese acquisition, the debt to capital ratio declined to 62.3%.*

Total debt, including the present value of operating leases, was $8,232 million at the end of 2000 compared with $8,670 million at the end of 1999 and $12,113 million in 1998. During 2000, the Company retired $805 million of long-term debt, $625 million through scheduled maturities and the call of $180 million of the 9.45% notes due in 2002.

In December 1999, the Company received $3.2 billion in proceeds from the sale of its proprietary credit card accounts receivable. Proceeds from the sale were used to pay down short-term debt and the balance was invested in short-term investments, pending the maturity of long-term debt issues. In conjunction with the sale, GE Capital also assumed debt totalling $729 million, including $79 million of off-balance-sheet debt. During 1999, the Company retired $225 million of long-term debt at the normal maturity date and redeemed $199 million of Eckerd Notes due in 2004.

In 1999 and 1998, the Company issued 9.6 million shares of common stock related to its drugstore acquisitions. The Company repurchased five million shares of its common stock in the fourth quarter of 1998 for $270 million as part of previously approved share repurchase programs.

Dividends. The Company paid quarterly dividends of $0.2875 in the first three quarters of 2000 and $0.125 in the final quarter of the year, reflecting a reduction from the $0.545 quarterly dividend paid in 1999. The Company considered the overall performance of its businesses and the need to reinvest earnings in those businesses in the determination to reduce the quarterly dividend rate.

Inflation and changing prices. Inflation and changing prices have not had a significant impact on the Company in recent years due to low levels of inflation.

Company Statement on Financial Information

The Company is responsible for the information presented in this Annual Report. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and present fairly, in all material respects, the Company's results of operations, financial position and cash flows. Certain amounts included in the consolidated financial statements are estimated based on currently available information and judgment as to the outcome of future conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company's system of internal controls is supported by written policies and procedures and supplemented by a staff of internal auditors. This system is designed to provide reasonable assurance, at suitable costs, that assets are safeguarded and that transactions are executed in accordance with appropriate authorization and are recorded and reported properly. The system is continually reviewed, evaluated and where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established policies and procedures are disseminated and understood throughout the Company.

The consolidated financial statements have been audited by independent auditors whose report appears below. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America, which include the consideration of the Company's internal controls to the extent necessary to form an independent opinion on the consolidated financial statements prepared by management.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee's responsibilities include recommending to the Board for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The Committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, performance, independence and non-audit services and related fees; internal audit reports on the adequacy of internal controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings. The independent auditors and Company personnel, including internal auditors, meet periodically with the Audit Committee to discuss auditing and financial reporting matters.

Robert B. Cavanaugh

Robert B. Cavanaugh
Executive Vice President and Chief Financial Officer

Independent Auditors' Report

To the Stockholders and Board of Directors
of J. C. Penney Company, Inc. :

We have audited the accompanying consolidated balance sheets of J. C. Penney Company, Inc. and Subsidiaries as of January 27, 2001 and January 29, 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended January 27, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of J. C. Penney Company, Inc. and Subsidiaries as of January 27, 2001 and January 29, 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended January 27, 2001, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas
February 22, 2001

Consolidated Statements of Operations

J. C. Penney Company, Inc. and Subsidiaries

($ in millions, except per share data)	2000	1999	1998
Retail sales, net	$ 31,846	$ 31,743	$ 29,761
Costs and expenses			
Cost of goods sold	23,031	22,286	20,621
Selling, general and administrative expenses	8,637	8,604	7,966
Other unallocated	27	(13)	(18)
Net interest expense and credit operations	427	294	387
Acquisition amortization	122	125	112
Restructuring and other charges, net	488	169	(22)
Total costs and expenses	32,732	31,465	29,046
(Loss)/income from continuing operations before income taxes	(886)	278	715
Income taxes	(318)	104	277
(Loss)/income from continuing operations	(568)	174	438
Income from discontinued operations (net of income tax of $90, $91, and $84)	159	162	156
Loss on sale of discontinued operations (including income taxes of $200)	(296)		
Net (loss)/income	$ (705)	$ 336	$ 594
(Loss)/earnings per share			
Basic			
Continuing operations	(2.29)	0.54	1.58
Discontinued operations	0.61	0.62	0.62
(Loss) on sale of discontinued operations	(1.13)		
Net (loss)/income	(2.81)	1.16	2.20
Diluted			
Continuing operations	(2.29)	0.54	1.58
Discontinued operations	0.61	0.62	0.61
(Loss) on sale of discontinued operations	(1.13)		
Net (loss)/income	(2.81)	1.16	2.19
Weighted average number of common shares outstanding during the period			
Basic	262	259	253
Diluted	262	259	254

See Notes to the Consolidated Financial Statements on pages 18 through 30.

Consolidated Balance Sheets

J. C. Penney Company, Inc. and Subsidiaries

($ in millions)	2000	1999
Assets		
Current assets		
Cash (including short-term investments of $935 and $1,155)	$ 944	$ 1,155
Receivables, net (bad debt reserve of $30 and $20)	893	921
Merchandise inventory (including LIFO reserves of $339 and $270)	5,269	5,947
Prepaid expenses	151	151
Total current assets	7,257	8,174
Property and equipment		
Land and buildings	2,949	3,047
Furniture and fixtures	3,919	3,930
Leasehold improvements	1,194	1,151
Accumulated depreciation	(2,948)	(2,857)
Property and equipment, net	5,114	5,271
Goodwill and other intangible assets, net (accumulated amortization of $452 and $333)	2,870	2,999
Other assets	1,474	1,617
Assets of discontinued operations (including cash and short-term investments of $156 and $105)	3,027	2,847
Total Assets	$ 19,742	$ 20,908
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable and accrued expenses	$ 3,877	$ 3,158
Short-term debt	—	330
Current maturities of long-term debt	250	625
Deferred taxes	108	159
Total current liabilities	4,235	4,272
Long-term debt	5,448	5,844
Deferred taxes	1,136	1,180
Other liabilities	978	873
Liabilities of discontinued operations	1,686	1,511
Total liabilities	13,483	13,680
Stockholders' equity		
Preferred stock authorized, 25 million shares; issued and outstanding, 0.6 million and 0.7 million shares Series B ESOP convertible preferred	399	446
Common stock, par value 50 cents: authorized, 1,250 million shares; issued and outstanding 263 million and 261 million shares	3,294	3,266
Reinvested earnings	2,636	3,590
Accumulated other comprehensive (loss)	(70)	(74)
Total stockholders' equity	6,259	7,228
Total liabilities and stockholders' equity	$ 19,742	$ 20,908

See Notes to the Consolidated Financial Statements on pages 18 through 30.

Consolidated Statements of Stockholders' Equity

J. C. Penney Company, Inc. and Subsidiaries

($ in millions)	Common Stock	Preferred Stock	Guaranteed LESOP Obligation	Reinvested Earnings	Accumulated Other Comprehensive (Loss)/Income[1]	Total Stockholders' Equity
January 31, 1998	$ 2,766	$ 526	$ (49)	$ 3,999	$ 48	$ 7,290
Net income				594		594
Net unrealized change in investments					(19)	(19)
Currency translation adjustments[2]					(57)	(57)
Other comprehensive income from discontinued operations					14	14
Total comprehensive (loss)/income				594	(62)	532
Dividends declared				(588)		(588)
Common stock issued	140					140
Common stock retired	(56)			(214)		(270)
Preferred stock retired		(51)				(51)
LESOP payment			49			49
January 30, 1999	2,850	475	—	3,791	(14)	7,102
Net income				336		336
Net unrealized change in investments					(14)	(14)
Currency translation adjustments					13	13
Other comprehensive loss from discontinued operations					(59)	(59)
Total comprehensive (loss)/income				336	(60)	276
Dividends declared				(537)		(537)
Common stock issued	416					416
Preferred stock retired		(29)				(29)
January 29, 2000	3,266	446	—	3,590	(74)	7,228
Net loss				(705)		(705)
Net unrealized change in investments					2	2
Currency translation adjustments					(14)	(14)
Other comprehensive income from discontinued operations					16	16
Total comprehensive (loss)/income				(705)	4	(701)
Dividends declared				(249)		(249)
Common stock issued	28					28
Preferred stock retired		(47)				(47)
January 27, 2001	$ 3,294	$ 399	$ —	$ 2,636	$ (70)	$ 6,259

(1) Cumulative net unrealized changes in investments are shown net of deferred taxes of $2 million, $1 million and $8 million, in 2000, 1999 and 1998, respectively. A deferred tax asset has not been established for currency translation adjustments due to immateriality of amounts.

(2) 1998 currency translation adjustments include $(49) million associated with assets acquired and liabilities assumed in the purchase of Renner.

See Notes to the Consolidated Financial Statements on pages 18 through 30.

Consolidated Statements of Cash Flows

($ in millions)	2000	1999	1998
Cash flows from operating activities			
(Loss)/income from continuing operations	$ (568)	$ 174	$ 438
Restructuring and other charges, net	488	169	(22)
Depreciation and amortization, including intangible assets	695	702	633
Deferred taxes	(95)	(8)	178
Change in cash from:			
Customer receivables	—	13	258
Other receivables	29	(113)	(116)
Inventory, net of trade payables	1,147	169	64
Current income taxes payable	50	(83)	(148)
Other assets and liabilities, net	(241)	108	(359)
	1,505	1,131	926
Cash flows from investing activities			
Capital expenditures	(648)	(686)	(776)
Proceeds from the sale of assets	30	3,179	—
Acquisitions[1]	—	—	(184)
Proceeds from the sale of investment securities	268	164	—
	(350)	2,657	(960)
Cash flows from financing activities			
Change in short-term debt	(330)	(1,650)	507
Proceeds from the issuance of long-term debt	—	—	644
Payment of long-term debt	(816)	(467)	(478)
Common stock issued, net	28	62	140
Common stock purchased and retired	—	—	(270)
Preferred stock redemption	(47)	(29)	(51)
Dividends paid, preferred and common	(294)	(598)	(586)
	(1,459)	(2,682)	(94)
Cash received from/(paid to) discontinued operations	93	—	(41)
Net increase/(decrease) in cash and short-term investments	(211)	1,106	(169)
Cash and short-term investments at beginning of year	1,155	49	218
Cash and short-term investments at end of year	$ 944	$ 1,155	$ 49
Supplemental cash flow information			
Interest paid	$ 439	$ 673	$ 649
Interest received	49	61	45
Income taxes (received) paid	(97)	194	255

(1) Reflects total cash changes related to acquisitions.

Non-cash transactions: In 2000, Eckerd entered into capital leases for store photo processing equipment totaling $40 million. In 1999, the Company issued 9.6 million shares of common stock having a value of $354 million to complete the acquisition of Genovese. Also in 1999, GE Capital assumed $650 million of balance sheet debt as part of the Company's sale of proprietary credit card receivables.

See Notes to the Consolidated Financial Statements on pages 18 through 30.

1 SUMMARY OF ACCOUNTING POLICIES

Basis of presentation. The consolidated financial statements present the results of J. C. Penney Company, Inc. and its subsidiaries. All significant inter-company transactions and balances have been eliminated in consolidation.

The accompanying financial statements have been presented to reflect the assets, liabilities, income and expenses of J. C. Penney Direct Marketing Services, Inc. (DMS) as a discontinued operation. The accompanying consolidated statements of operations present as a separate item the income and estimated loss on disposal of DMS. The assets to be disposed of, and related liabilities, are presented as separate items in the accompanying consolidated balance sheets.

Use of estimates. The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While actual results could differ from these estimates, management does not expect the differences, if any, to have a material effect on the financial statements.

Some of the more significant estimates include inventory valuation as determined under the retail method of accounting, depreciation, amortization and recoverability of long-lived assets, restructuring and other reserves, pensions and income taxes.

Fiscal year. The Company's fiscal year ends on the last Saturday in January. Fiscal 2000 ended January 27, 2001; fiscal 1999 ended January 29, 2000; and fiscal 1998 ended January 30, 1999. All three years contained 52 weeks. The accounts of Renner are on a calendar-year basis.

Reclassifications. 2000 reflects two primary reclassifications, neither of which had an impact on reported results or stockholders' equity. Amounts reported for prior periods have been reclassified to conform to the 2000 presentation.

The Company has reclassified amounts billed to customers for shipping and handling from selling, general and administrative expense (SG&A) to retail sales with related costs reclassified from SG&A to cost of goods sold in accordance with Emerging Issues Task Force (EITF) Issue 00-10, "Accounting for Shipping and Handling Fees and Costs."

Expenses related to rent and occupancy costs were reclassified from cost of sales to SG&A.

Certain other reclassifications have been made to prior years' income and expense amounts to conform with the current year presentation.

Merchandise sales and services. Revenues from merchandise sales and services (retail sales), including delivery fees, are reported net of returns and allowances and exclude sales tax. Commissions earned on sales generated by licensed departments are included as a component of retail sales. Layaway sales and catalog orders delivered to catalog departments located in department stores and other Company facilities are recorded as sales at the time customers pick up the merchandise. An allowance has been established to provide for estimated merchandise returns.

In 1999, in response to guidance provided by SEC Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition in Financial Statements," the Company changed certain revenue recognition policies affecting department stores and catalog. Changes primarily affected the reporting of sales for licensed departments and catalog orders shipped to various Company facilities for customer pickup. These changes resulted in a $67 million reduction of reinvested earnings, net of tax, as of January 28, 1995. The impact on earnings and cash flows for the intervening periods presented in this report is not material. Accordingly, the cumulative effects of the changes have been reflected as a $20 million pre-tax charge to cost of goods sold for fiscal 1999, the period in which the change was made.

Advertising. Advertising costs, which include newspaper, television, radio and other media advertising, are either expensed as incurred or the first time the advertising occurs, and were $967 million, $995 million and $1,043 million for fiscal years 2000, 1999 and 1998, respectively. Catalog book preparation and printing costs, which are considered direct response advertising, are charged to expense over the life of the catalog, not to exceed six months. Included in other assets are deferred advertising costs, primarily catalog book costs, of $87 million as of January 27, 2001, and $84 million as of January 29, 2000.

Pre-opening expenses. Costs associated with the opening of new stores are expensed in the period incurred.

Income taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities

are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Earnings/(loss) per common share. Basic earnings/(loss) per share is computed by dividing net income/(loss) less dividend requirements on the Series B ESOP Convertible Preferred Stock, net of tax as applicable, by the weighted average number of common shares outstanding. Diluted earnings/(loss) per share assume the exercise of stock options and the conversion of the Series B ESOP Convertible Preferred Stock into the Company's common stock unless their inclusion would be anti-dilutive.

Stock-based compensation. The Company accounts for stock-based compensation by applying Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," as allowed under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-based Compensation." Under APB No. 25, if the exercise price of employee stock options equals or exceeds the market price of the underlying stock on the date of grant, no compensation expense is recorded. Under the provisions of the Company's equity compensation plan, stock options cannot be granted below market.

Cash and short-term investments. The Company's short-term investments consist principally of commercial paper which has a maturity at date of purchase of three months or less.

Merchandise inventories. Substantially all merchandise inventory is valued at the lower of cost (using the last-in, first-out or "LIFO" method) or market, determined by the retail method. The Company determines the lower of cost or market on an aggregated basis for similar types of merchandise. To estimate the effects of inflation on inventories, the Company utilizes internally developed price indices.

Property and equipment. Property and equipment is stated at cost less accumulated depreciation. Depreciation is provided principally by the straight-line method over the estimated useful lives of the related assets, generally three to 20 years for furniture and equipment and 50 years for buildings. Leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the term of the lease.

Routine maintenance and repairs are charged to expense when incurred. Major replacements and improvements are capitalized. The cost of assets sold or retired and the related accumulated depreciation or amortization are removed from the accounts with any resulting gain or loss included in net income.

Goodwill and other intangible assets and long-lived assets. Goodwill, which represents the cost in excess of fair value of net assets acquired, and trade name associated with the Eckerd acquisition are generally amortized over 40 years. Other intangible assets are amortized over periods ranging from five to seven years.

In assessing and measuring the impairment of long-lived assets, the Company applies the provisions of Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the long-lived asset or identifiable intangible being tested for impairment was acquired in a purchase business combination, the goodwill that arose in that transaction is included in the asset grouping in determining whether an impairment has occurred. If some but not all of the assets acquired in that transaction are being tested, goodwill is allocated to the assets being tested for impairment based on their relative fair values of the long-lived assets and identifiable intangibles acquired at the acquisition date. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Additionally, if an impairment loss is recognized for long-lived assets and identifiable intangibles where goodwill has been allocated to an asset grouping, as described immediately above, the carrying amount of the allocated goodwill is adjusted before reducing the carrying amounts of impaired long-lived assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

With respect to the carrying amounts of goodwill remaining after the testing for impairment of long-lived assets and identifiable intangibles, including enterprise level goodwill not subject to impairment testing under SFAS No. 121, the Company assesses such carrying value for impairment whenever events or circumstances indicate that the carrying amount of such goodwill may not be recoverable. The Company assesses the recoverability of goodwill by determining whether the amortization of goodwill over its remaining life can be recovered through undiscounted future operating cash flows of the acquired business. The amount of goodwill impairment, if any, is measured based on projected discounted operating cash flows compared to the carrying value of such goodwill.

The Company believes the remaining balance of goodwill, which relates principally to its drugstore acquisitions, at January 27, 2001, is recoverable. The Company's ability to fully

recover the carrying amount of goodwill through undiscounted future cash flows assumes that results of operations will improve from current levels and provide positive cash flows in future periods greater than current results. However, should events or economic conditions arise that hinder the Company's ability to achieve its business objectives, a portion of the goodwill may become impaired in the near term, and such amount of impairment may be material.

Capitalized software costs. Costs associated with the acquisition or development of software for internal use are capitalized and amortized over the expected useful life of the software. The amortization period generally ranges between three and ten years.

Foreign currency translation. Foreign currency assets and liabilities are translated into U.S. dollars at the exchange rates in effect at the balance sheet date and revenues and expenses are translated using average currency rates during the reporting period.

Effect of new accounting standards. In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company has reviewed financial instruments that may be impacted by these new rules, principally long-term debt, purchase commitments and real estate leases, and has determined that current instruments do not contain terms or conditions that would be of a derivative nature. Accordingly, these new rules will not have a material impact on the consolidated financial position or results of operations upon adoption.

In September 2000, the FASB issued SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," a replacement of SFAS No. 125 with the same title. It revises the standards for securitizations and other transfers of financial assets and collateral and requires certain additional disclosures, but otherwise retains most of SFAS No. 125's provisions. SFAS No. 140 is effective for transfers after March 31, 2001. Adoption of the accounting provisions of this standard is not expected to have a material impact on the Company's consolidated financial position or results of operations.

2 DISCONTINUED OPERATIONS

On March 7, 2001, the Company signed a definitive agreement with a U.S. subsidiary of AEGON N.V. (AEGON) to sell the assets of its DMS business, consisting of the stock of its insurance subsidiaries and related businesses. The Company will receive cash proceeds at closing of approximately $1.3 billion plus settlements from intercompany accounts. The sale generated a book loss, net of tax, of $296 million.

Concurrent with the closing, the Company will enter into a 15-year strategic marketing alliance with AEGON designed to offer an expanded range of financial and membership services products to JCPenney customers. Under this agreement, the Company will receive annual cash payments over the next 15 years pursuant to the terms of licensing and marketing services arrangements. Such amounts will be recognized as earned in the Company's financial statements.

The Company's financial statements have been presented to reflect DMS as a discontinued operation for all periods. Operating results of the discontinued operation are summarized below:

($ in millions)	2000	1999	1998
Net revenue	$1,164	$1,119	$1,022
Income from discontinued operations (net of income tax of $90, $91, and $84)	159	162	156
Loss on sale of discontinued operations (including income taxes of $200)	(296)	—	—
(Loss)/income from discontinued operations	$(137)	$ 162	$ 156

The amount of income tax expense recorded on the sale transaction has been impacted by book/tax basis differences arising during periods in which separate tax returns were filed for DMS. Deferred tax liabilities historically have not been provided on such earnings because management expected that such earnings would be permanently invested in these businesses.

Assets and liabilities of the discontinued operation were as follows:

($ in millions)	2000	1999
Current assets	$ 403	$ 318
Investments	1,495	1,484
Deferred policy acquisition costs	999	929
Other assets	130	116
Total assets	3,027	2,847
Current liabilities	287	494
Long-term liabilities	1,399	1,017
Total liabilities	1,686	1,511
Net assets of discontinued operations	$1,341	$ 1,336

3 CALCULATION OF EARNINGS PER SHARE

($ in millions, except per share data)	(Loss)/Income	Average Shares	EPS
2000			
Loss from continuing operations	$ (568)		
Less preferred stock dividends	(33)		
Basic and diluted loss per share – continuing operations	(601)	262	(2.29)
Basic and diluted loss per share – discontinued operations	(137)	262	(0.52)
Basic and diluted loss per share	$ (738)	262	$ (2.81)
1999			
Income from continuing operations	$ 174		
Less preferred stock dividends	(36)		
Basic and diluted EPS – continuing operations	138	259	0.54
Basic and diluted EPS – discontinued operations	162	259	0.62
Basic and diluted EPS	$ 300	259	$ 1.16
1998			
Income from continuing operations	$ 438		
Less preferred stock dividends	(38)		
Basic EPS – continuing operations	400	253	1.58
Stock options	—	1	
Diluted EPS – continuing operations	400	254	1.58
EPS – discontinued operations			
Basic	156	253	0.62
Diluted	156	254	0.61
EPS			
Basic	556	253	2.20
Diluted	$ 556	254	$ 2.19

Calculation excludes the effects of the potential conversion of outstanding preferred shares of 14, 15, and 17 million common shares and their related dividends in 2000, 1999 and 1998, because their inclusion would have an anti-dilutive effect on EPS.

In addition, in each period, certain options were excluded from the computation of diluted earnings per share because they would have been anti-dilutive. At January 27, 2001, January 29, 2000, and January 30, 1999, options to purchase 18, 12 and 2 million shares of stock at prices ranging from $9 to $71, $11 to $71 and $55 to $71 per share were excluded from the 2000, 1999 and 1998 calculations, respectively.

4 SALE OF RECEIVABLES AND ACQUISITIONS

On December 6, 1999, the Company sold its proprietary credit card accounts and receivables, including its retained interest in the JCP Master Credit Card Trust and its credit facilities, to GE Capital. The total value of the transaction was $4 billion, and included the assumption by GE Capital of $729 million of debt related to previous receivable securitization transactions, $79 million of which was off-balance-sheet. The sale resulted in a pre-tax gain of $55 million, net of an allowance for final settlement, which is included as a component of restructuring and other charges, net, in the consolidated statements of operations. In the current year, the allowance for final settlement was reduced by $9 million and is reflected in restructuring and other charges, net. As a part of the overall transaction, the Company also outsourced the management of its private label credit card business to GE Capital.

In recent years, the Company has completed several acquisitions, all of which were recorded using the purchase method of accounting. Accordingly, the results of operations of the acquired businesses have been included in the consolidated statements of operations from their respective acquisition dates. Goodwill has been recognized for the amount of the excess of the purchase price paid over the fair market value of the net assets acquired.

On March 1, 1999, the Company acquired Genovese, a 141-drugstore chain with locations in New York, New Jersey and Connecticut. The acquisition was accomplished through the exchange of approximately 9.6 million shares of Company common stock for the outstanding shares of Genovese, and the conversion of outstanding Genovese stock options into

approximately 550 thousand common stock options of the Company. The total value of the transaction, including the assumption of $60 million of debt, was $414 million, of which $263 million represented goodwill.

The Company completed the acquisition of a majority interest in Renner, a 21-store Brazilian department store chain, in January 1999. The total purchase price was $139 million, of which $67 million represented goodwill.

5 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and short-term investments. The carrying amount approximates fair value because of the short maturity of these instruments.

Short-term and long-term debt. Carrying value approximates fair value for short-term debt. The fair value of long-term debt, excluding capital leases, is estimated by obtaining quotes from brokers or based on current rates offered for similar debt. At January 27, 2001, long-term debt, including current maturities, had a carrying value of $5.6 billion and a fair value of $4.0 billion. At January 29, 2000, long-term debt, including current maturities, had a carrying value of $6.4 billion and a fair value of $5.9 billion.

Concentrations of credit risk. The Company has no significant concentrations of credit risk.

6 ACCOUNTS PAYABLE AND ACCRUED EXPENSES

($ in millions)	2000	1999
Trade payables	$ 1,948	$ 1,480
Accrued salaries, vacation and bonus	446	463
Taxes payable	195	175
Interest payable	136	155
Workers' compensation and general liability insurance	74	90
Common dividends payable	34	79
Other	1,044	716
Total	$ 3,877	$ 3,158

7 SHORT-TERM DEBT

The Company did not have any short-term debt outstanding at January 27, 2001, a decrease of $330 million from the prior year end.

The Company has a committed bank credit line in the form of a $1.5 billion, five-year revolving credit facility, which expires November 21, 2002. No borrowings have been made under this facility.

The Company also has $480 million of uncommitted credit lines in the form of letters of credit with seven banks to support its direct import merchandise program. As of January 27, 2001, $353 million of letters of credit issued by the Company were outstanding.

8 LONG-TERM DEBT

	Jan. 27, 2001		Jan. 29, 2000	
($ in millions)	Avg. Rate	Balance	Avg. Rate	Balance
Notes and debentures				
Due: 2000	—	$ —	6.7%	$ 625
2001	9.1%	250	9.1%	250
2002	7.1%	920	7.5%	1,100
2003	6.3%	350	6.3%	350
2004	7.5%	300	7.5%	300
2005	7.3%	218	7.3%	218
2006-2010	8.4%	987	8.4%	979
2011-2015	7.6%	305	7.6%	305
2016-2020	7.9%	562	7.9%	562
2021-2027	7.5%	850	7.5%	850
Thereafter	7.5%	900	7.5%	900
Total notes and debentures	7.6%	5,642	7.6%	6,439
Capital lease obligations and other	—	56	—	30
Less current maturities	—	(250)	—	(625)
Total long-term debt	—	$ 5,448	—	$ 5,844

All notes and debentures have similar characteristics regardless of due date and therefore are grouped by maturity date in the above schedule.

During fiscal 2000, the Company redeemed at par $625 million principal amount of notes ($300 million of 6.375% notes and $325 million of 6.95% notes) at their normal maturity dates. In addition, the Company called and redeemed at par approximately $180 million principal amount of 9.45% notes that had a normal maturity date of July 2002.

9 CAPITAL STOCK

At January 27, 2001, there were approximately 53 thousand stockholders of record. On a combined basis, the Company's savings plans, including the Company's employee stock ownership plan (ESOP), held 51.2 million shares of common stock, or 18.6% of the Company's common shares after giving effect to the conversion of preferred stock.

Common stock. The Company has authorized 1,250 million shares of common stock; par value $.50; 263 million shares were issued and outstanding as of January 27, 2001, and 261 million shares were issued and outstanding as of January 29, 2000.

Preferred stock. The Company has authorized 25 million shares of preferred stock; 664 thousand shares of Series B ESOP Convertible Preferred Stock were issued and outstanding as of January 27, 2001, and 743 thousand shares were issued and outstanding as of January 29, 2000. Each share is convertible into 20 shares of the Company's common stock at a guaranteed minimum price of $30 per common share. Dividends are cumulative and are payable semi-annually at a rate of $2.37 per common share equivalent, a yield of 7.9%. Shares may be redeemed at the option of the Company or the ESOP under certain circumstances. The redemption price may be satisfied in cash or common stock or a combination of both, at the Company's sole discretion.

Preferred stock purchase rights. In March 1999, the Board of Directors declared a dividend distribution of one preferred stock purchase right on each outstanding share of common stock in connection with the redemption of the Company's then existing preferred stock purchase rights program. These rights entitle the holder to purchase, for each right held, 1/1000 of a share of Series A Junior Participating Preferred Stock at a price of $140. The rights are exercisable by the holder upon the occurrence of certain events and are redeemable by the Company under certain circumstances as described by the rights agreement. The rights agreement contains a three-year independent director evaluation provision. This "TIDE" feature provides that a committee of the Company's independent directors will review the rights agreement at least every three years and, if they deem it appropriate, may recommend to the Board a modification or termination of the rights agreement.

10 STOCK-BASED COMPENSATION

The Company's current stock plans (the 1997 plan approved by stockholders and the 2000 New Associate Equity Plan) reserved 19.5 million shares of common stock to be granted to associates as either stock awards or options to purchase the Company's common stock. At January 27, 2001, 4.8 million shares of stock were available for future grant. The number of option shares is fixed at the grant date, and the exercise price of stock options is generally set as the average market price on the date of the grant. (Of the 7.3 million options granted in 2000, 3.5 million were granted to the Company's new chairman pursuant to his employment agreement at an exercise price of $16.06, while the market price on the date of the grant was $13.63. These options vest over a period of five years.) Options have a maximum term of ten years. The 1997 plan also provides for grants of stock awards and stock options to outside members of the Board of Directors. Shares acquired by such directors are not transferable until a director terminates service.

Approximately 1.5 million restricted stock units and stock awards, with market values at the date of grant of $20.3 million, were granted in fiscal 2000. The weighted-average grant-date fair value of these awards was $13.85. Restricted stock grants vest in one to five years. The market value of restricted shares is being amortized as compensation expense over the vesting period. Compensation expense related to these restricted stock awards was $2.3 million in 2000. Prior to fiscal 2000, awards of restricted stock were not significant, and compensation expense was recognized in the year the awards were granted.

In accordance with SFAS No. 123, "Accounting for Stock-Based Compensation," the fair value of each fixed option granted is estimated on the date of grant using the Black-Scholes option pricing model, with assumptions as follows:

	2000	1999	1998
Dividend yield	4.2%	3.8%	3.8%
Expected volatility	35.2%	25.1%	20.5%
Risk-free interest rate	6.2%	5.5%	5.7%
Expected option term	5 years	7 years	6 years
Fair value per share of options granted	$ 3.78	$ 8.41	$ 13.66

Compensation expense recorded under SFAS No. 123 would have been approximately $26 million in 2000, $40 million in 1999 and $21 million in 1998, reducing earnings per share by eight cents in 2000, fourteen cents in 1999 and seven cents in 1998.

The Board of Directors approved a new 2001 Equity Compensation Plan (2001 Plan) subject to stockholder approval at the annual meeting on May 18, 2001. The 2001 Plan will initially reserve 16 million shares for issuance, plus shares reserved but not subject to awards under the 1997 and 2000 equity plans, and also provides for cash incentive awards if certain performance criteria are met. The 2001 Plan provides for grants of stock options and stock awards to members of the Board of Directors not otherwise employed by the Company. If the 2001 Plan is approved, no future grants will be made under the existing 1997 and 2000 plans.

The following table summarizes the status of the Company's fixed stock option plans for the three years ended January 27, 2001, January 29, 2000 and January 30, 1999:

	2000		1999		1998	
(shares in thousands, price is weighted average)	Shares	Price	Shares	Price	Shares	Price
Outstanding at beginning of year	11,832	$ 43	6,972	$ 48	7,583	$ 40
Granted	7,294	16	5,619	36	1,643	71
Exercised	—	—	(479)	23	(2,100)	36
Expired and cancelled	(959)	35	(280)	40	(154)	61
Outstanding at end of year	18,167	$ 33	11,832	$ 43	6,972	$ 48
Exercisable at end of year	6,592	$ 48	6,913	$ 48	5,418	$ 41

Options as of January 27, 2001	Outstanding			Exercisable	
(shares in thousands, price and term are weighted averages)	Shares	Price	Remaining Term (Yrs)	Shares	Price
$9.22 - $25	7,106	$16	9.4	27	$16
$25.01 - $35	1,565	28	1.1	1,553	28
$35.01 - $45	5,499	37	7.3	1,018	42
$45.01 - $55	1,871	48	5.6	1,868	48
Over $55	2,126	66	5.8	2,126	66
Total	18,167	$33	7.2	6,592	$48

11 INTEREST EXPENSE, NET

($ in millions)	2000	1999	1998
Short-term debt	$ 13	$ 137	$ 106
Long-term debt	464	538	557
Other, net *	(50)	(68)	(52)
Interest expense, net	$ 427	$ 607	$ 611

** Primarily income on short-term investments in 2000. Includes $8 million, $34 and $39 million in 2000, 1999 and 1998, respectively, for interest income from the Company's investment in asset-backed certificates.*

12 LEASE COMMITMENTS

The Company conducts the major part of its operations from leased premises that include retail stores, catalog fulfillment centers, warehouses, offices and other facilities. Almost all leases will expire during the next 20 years; however, most leases will be renewed or replaced by leases on other premises. Rent expense for real property operating leases totaled $711 million in 2000, $667 million in 1999, and $585 million in 1998, including contingent rent, based on sales, of $59 million, $64 million, and $66 million for the three years, respectively.

The Company also leases data processing equipment and other personal property under operating leases of primarily three to five years. Rent expense for personal property leases was $131 million in 2000, $123 million in 1999, and $123 million in 1998.

Future minimum lease payments for non-cancelable operating and capital leases, net of executory costs, principally real estate taxes, maintenance and insurance, and subleases, as of January 27, 2001 were:

($ in millions)	Operating	Capital
2001	$ 647	$ 20
2002	605	16
2003	566	12
2004	514	10
2005	467	8
Thereafter	4,084	—
Total minimum lease payments	$ 6,883	$ 66
Present value	$ 3,469	$ 53
Weighted average interest rate	8.8%	10%

13 RETIREMENT PLANS

The Company's retirement plans consist principally of a noncontributory pension plan, noncontributory supplemental retirement, benefit restoration and deferred compensation plans for certain management associates, contributory medical and dental plans, a contributory 401(k) and employee stock ownership plan, and contributory mirror savings plans for certain management associates. Pension plan assets are invested in a balanced portfolio of equity and debt securities managed by third party investment managers. In addition to the above, Eckerd and Genovese have noncontributory pension plans. As of December 31, 1998, all Eckerd retirement benefit plans were frozen and employees began to accrue benefits under the Company's retirement plans on January 1, 1999. As of December 31, 1999, all Genovese retirement benefit plans were frozen and all Genovese associates began to accrue benefits under the Company's retirement plans on January 1, 2000. In 2000, the Company adopted a change in the measurement date of the pension and post-retirement health care benefits plans from December 31 to October 31. Prior periods have not been restated, as the impact of the change is not material. The components of net periodic benefit costs are shown below:

Expense

($ in millions)	2000	1999	1998
Pension and health care			
Service cost	$ 97	$ 109	$ 76
Interest cost	236	220	221
Projected return on assets	(354)	(314)	(283)
Net amortization	(17)	13	14
Total pension and health care	(38)	28	28
Savings plan expense	3	37	76
Net periodic benefit (income)/cost	$ (35)	$ 65	$ 104

The following table sets forth the change in projected benefit obligation, change in plan assets and funded status of the pension plans at fiscal year end 2000 and 1999:

($ in millions)	2000	1999
Change in projected benefit obligation		
Beginning of year	$ 2,737	$ 3,006
Service and interest cost	254	303
Actuarial loss/(gain)	69	(375)
Benefits paid	(170)	(201)
Amendments and other	—	4
End of year	2,890	2,737
Change in fair value of plan assets		
Beginning of year	3,791	3,393
Company contributions	25	35
Net gains	107	560
Benefits paid	(170)	(201)
Amendments and other	—	4
End of year	3,753	3,791
Funded status of plan		
Excess of fair value over projected benefits	863	1,054
Unrecognized gains and prior service cost	(278)	(563)
Prepaid pension cost	$ 585	$ 491

Assumptions

	2000	1999	1998
Discount rate	7.75%	7.75%	6.75%
Expected return on assets	9.50%	9.50%	9.50%
Salary progression rate	4.00%	4.00%	4.00%

For the medical and dental plans, at year end 2000 the accumulated post-retirement benefit obligation, unrecognized net gain and net liability were $334 million, $14 million and $320 million, respectively. At year end 1999, the accumulated post-retirement benefit obligation, unrecognized net loss and net liability were $322 million, $17 million and $339 million, respectively.

A 1% increase (or decrease) in assumed health care cost trend rates would have increased (or decreased) the accumulated postretirement benefit obligation as of year-end 2000 by $26 million and the aggregate service and interest cost for fiscal 2000 by $2.5 million. For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2001. The rate was assumed to decrease gradually to 5.0% by 2004 and remain at that level thereafter.

14 RESTRUCTURING AND OTHER CHARGES, NET

Over the past several years, the Company has implemented a number of initiatives to improve its competitive position and future financial performance, including closing underperforming stores and reducing headcount in corporate offices and field locations. These initiatives, along with the integration of several drugstore formats with the Eckerd drugstore business acquired in 1997, have resulted in restructuring and other charges.

As it relates to store closing restructuring charges, the major actions comprising the plan to close stores consisted of the identification of stores that did not meet the Company's profit objectives, closing dates (to coincide with termination rights/and or other trigger dates contained in leases, if applicable), and notification of affected parties (e.g., employees, landlords, and community representatives) in accordance with the Company's store closing procedures. These closings were over and above the normal course of store closures within a given year, which are typically relocations. Substantially all of the stores were leased, and as such, the Company will not be responsible for the disposal of property, other than fixtures, which for the most part will be abandoned.

During 2000, 1999, and 1998 the Company recorded $488 million, $169 million and $(22) million of restructuring and other charges, net. The following table summarizes these charges for the last three years:

($ in millions)	2000	1999	1998
Department stores and catalog			
Store closing costs	$ 206	$ —	$ —
Asset impairments	68	130	—
Contract cancellations	12	—	—
Headcount reductions	30	—	—
Gain on sale of assets	—	(55)	—
Adjustments to prior period reserves and other	(12)	(11)	(22)
Eckerd drugstores			
Store closing costs	111	—	—
Asset impairments	23	110	—
Contract cancellations	72	—	—
Headcount reductions	5	—	—
Gain on sale of assets	(13)	—	—
Adjustments to prior period reserves and other	(14)	(5)	—
	$ 488	$ 169	$ (22)

The status of reserves established in conjunction with these charges is discussed in Note 15.

2000 Restructuring and Other Charges, Net

Department Stores and Catalog

Store closing costs ($206 million)

First quarter 2000. In the first quarter of 2000, the Company approved a plan to close 45 underperforming JCPenney stores. These stores generated sales of approximately $450 million and incurred operating losses of approximately $20 million in 1999. All but one of these stores were closed as of January 27, 2001. The remaining store is expected to close by April 2001. Store closing costs of $115 million include asset impairments ($60 million), present value of future lease obligations ($45 million), and severance ($10 million).

Store assets consist primarily of furniture and fixtures, and buildings and improvements. The Company recorded an asset impairment charge of $60 million, in accordance with SFAS No. 121. The impairment charge represents the excess of the carrying value of the assets over their estimated fair value.

The store closing plan anticipated that the Company would remain liable for all future lease payments. The present value of the future lease obligations was calculated, net of assumed sublease income, using a discount rate of 6.7%. A charge of $45 million was recorded and a corresponding reserve was established based on an average of three years of lease payments or a negotiated termination fee.

Approximately 4,500 store employees were expected to be impacted by the scheduled store closings, with approximately 1,800 eligible for severance benefits, all of whom were terminated by January 27, 2001. A charge of $10 million was recorded for severance benefits to be paid to these employees and a corresponding reserve was established.

Fourth quarter 2000. In the fourth quarter of 2000, the Company approved a plan to close 47 underperforming JCPenney stores. These stores generated sales of approximately $500 million and incurred operating losses of approximately $8 million in 1999. The majority of these stores are scheduled to close by the end of June 2001 and the remainder by year end 2001. Store closing costs of $91 million include asset impairments ($53 million), present value of future lease obligations ($32 million), and severance ($6 million).

Store assets consist primarily of furniture and fixtures, and buildings and improvements. The Company recorded an asset impairment charge of $53 million, in accordance with SFAS No. 121. The impairment charge represented the excess of the carrying value of the assets over estimated fair value.

The store closing plan anticipated that the Company would remain liable for all future lease payments. The present value of the future lease obligations was calculated, net of assumed sublease income, using a discount rate of 5.2%. A charge of $32 million was recorded and a corresponding reserve was established based on an average of three years of lease payments or a negotiated termination fee.

Approximately 5,000 store employees are expected to be impacted by the scheduled store closings. A charge of $6 million was recorded for severance benefits to be paid to these employees and a corresponding reserve was established.

Asset impairments. During the fourth quarter of 2000, the Company evaluated its investments in long-lived assets to be held and used in operations on an individual store basis, and determined that, based on historical operating results and updated operating projections, asset carrying values on thirteen stores were not supported by projected undiscounted cash flows. Accordingly, an impairment charge of $64 million was recorded to write-down the carrying value of store assets to their estimated fair value. Fair value was determined based on projected discounted cash flows using a discount rate of 11%. Additionally, a charge of $4 million was recorded for the permanent impairment of a non-strategic business investment.

Contract cancellations. In the fourth quarter of 2000, the Company recorded a charge of $12 million for the remaining lease payments associated with the termination of a computer hardware contract. A corresponding reserve was established.

Headcount reductions. In the first quarter of 2000, the Company approved a plan to eliminate 430 JCPenney Home Office and field positions. Substantially all of these employees had been terminated as of January 27, 2001. A charge of $11 million was recorded in the first quarter for severance benefits to be paid to these employees and a corresponding reserve was established. In the fourth quarter of 2000, the Company approved a plan to eliminate 300 JCPenney Home Office and field positions, and provide for certain senior management severance packages. A charge of $19 million was recorded in the fourth quarter for severance benefits for these employees.

Adjustments to prior period reserves and other. A net credit of $12 million was recorded, comprised principally of the reversal of $9 million of the allowance established in connection with the sale of the proprietary credit card receivables due to lower closing costs than anticipated.

Eckerd Drugstores

Store closing costs ($111 million)

First quarter 2000. In the first quarter of 2000, Eckerd approved a plan to close 289 underperforming drugstores that did not meet the Company's profit objectives. These stores generated sales of approximately $650 million and incurred operating losses of approximately $30 million in 1999. The number of stores was reduced to 279 in the second quarter as a result of restrictive lease terms on certain stores. These closings are over and above the normal course of store closures within a given year, which are typically relocations. 274 of these stores had been closed as of January 27, 2001, and the remainder will be closed by the end of April 2001. Store closing costs of $106 million include future lease obligations ($90 million), severance ($4 million), and other exit costs ($16 million), offset by a $4 million net gain on the disposal of fixed/intangible assets.

The drugstore closing plan anticipated that Eckerd would remain liable for all future lease payments. The present value of the future lease obligations was calculated net of assumed sublease income using a discount rate of 7%. A charge of $90 million was recorded and a corresponding reserve was established. On average the remaining lease term for closed stores was approximately six years, and payments during the next five years are expected to be approximately $14 million per year.

Approximately 600 drugstore employees were expected to be impacted by the scheduled store closings, 560 of whom were terminated by January 27, 2001. A charge of $4 million was recorded for severance benefits to be paid to these employees and a corresponding reserve was established.

A charge of $16 million was recorded for other exit costs related to exiting the Puerto Rico market and store equipment leases and a corresponding reserve was established.

Fourth quarter 2000. In the fourth quarter of 2000, Eckerd recorded a charge of $5 million for exit costs related to closing approximately 250 JCPenney catalog desks currently in Eckerd drugstores.

Asset impairments. In the fourth quarter of 2000, Eckerd recorded an impairment charge of $23 million consisting of $14 million related to fixtures associated with relocated drugstores, and $9 million of capitalized costs for Eckerd's e-commerce web site, which is no longer a near-term focus.

Contract cancellations. In the fourth quarter of 2000, Eckerd

terminated a contract with its primary third party information technology service provider. A charge of $72 million was recorded for asset impairments ($48 million) and termination costs ($24 million) for which a corresponding reserve was established.

Headcount reductions. In the fourth quarter of 2000, Eckerd approved a plan to reduce headcount by 265 headquarter and field employees. About 100 employees had been terminated as of January 27, 2001. A charge of $5 million was recorded for severance benefits to be paid to these employees and a corresponding reserve was established.

Gain on the sale of assets. The Company sold a note receivable that was associated with the divestiture of certain drugstore locations, pursuant to a Federal Trade Commission agreement. The sale of the note generated cash proceeds of $16 million, the note had a net book value of $3 million, resulting in a net gain of $13 million.

Adjustments to prior period reserves and other. A credit of $16 million was recorded for adjustments related to reserves established in prior periods. In addition, a charge of $2 million was recorded for termination costs paid to developers for cancelled projects.

1999 Restructuring and Other Charges, Net

Department Stores and Catalog

Asset impairments. An asset impairment charge of $130 million was recorded for underperforming department stores in accordance with SFAS No. 121. The impairment charge represents the excess of the carrying values of the assets, including intangible assets, over the estimated fair values. The charge relates to ten stores, with the majority attributable to seven stores in the Washington, D.C., market that were acquired in 1995. The Washington, D.C., stores have performed substantially below levels anticipated at the time of the acquisition, and the impairment charge generally represents goodwill associated with the acquisition. Three of the impaired department stores had contracts of sale pending as of the end of fiscal 1999 and were written down to fair value. These three stores were sold in the first quarter of 2000 for cash proceeds of $36 million, which approximated the Company's carrying value of the fixed assets at the sale date. Fair values for department stores were determined based on the established sales prices for the three stores that were sold, independent appraisals on three other stores, and discounted cash flows for the remaining stores.

Gain on the sale of assets. In December 1999, the Company sold its private-label credit card accounts receivable, including its credit facilities, to GE Capital at a gain of $55 million (see Note 4 for further discussion of the sale).

Adjustments to prior period reserves and other. The Company also recorded credits related to restructuring charges recognized in 1996 and 1997. Gains on the sale of two closed department store locations that had been impaired in 1997 totaled $4 million and reserves for future lease obligations were reduced by $7 million based on the negotiation of lease terminations that were lower than the reserves that had been established in 1997.

Eckerd Drugstores

Asset impairments. An asset impairment charge of $110 million was recorded for 289 underperforming drugstores located throughout the Eckerd operating area, with concentrations in Pennsylvania, Virginia, New Jersey, and New York in accordance with SFAS No. 121. The impairment charge represents the excess of the carrying values of the assets over the estimated fair values. The impaired drugstores generally represent smaller, low-volume stores that were former independent units and chains acquired over the years that do not meet Eckerd performance standards and cannot be relocated. In the first quarter of 2000, a plan was approved to close these drugstores as discussed on page 26. Fair values were based on projected discounted cash flows.

Adjustments to prior period reserves. A credit of $5 million was recorded for adjustments related to reserves recorded in prior periods.

1998 Restructuring and Other Charges, Net

Department Stores and Catalog

Adjustments to prior year reserves. A credit of $22 million was recorded for adjustments related to reserves recorded in prior years. $11 million related to the reversal of reserves established in 1997 for severance costs related to a reduction in force. The plan was completed in the fourth quarter of 1998 at less cost than originally estimated.

Other adjustments to the reserves in 1998 included reversals of approximately $5 million due to reduced lease obligations stemming from subleased facilities, and $6 million for employment-related costs.

15 ROLLFORWARD OF RESTRUCTURING RESERVES

The following tables present the activity and balances of the reserves established in connection with the 1996, 1997 and 2000 restructuring charges:

($ in millions)	Balance 1/31/98	Cash Payments	Other Adjustments	Balance 1/30/99	Cash Payments	Other Adjustments	Balance 1/29/00
1996 and 1997 Charges							
Department stores and catalog							
Reduction in force	$ 55	$ (44)	$ (11)	$ —	$ —	$ —	$ —
Future lease obligations	55	(24)	(11)	20	(5)	(7)	8
Eckerd drugstores							
Future lease obligations and severance	105	(15)		90	(7)	(5)	78
Allowance for notes receivable[1]	25			25			25
Headquarters severance	1	(1)		—			—
Total all charges	$ 241	$ (84)	$ (22)	$ 135	$ (12)	$ (12)	$ 111

(1) The allowance for notes receivable is included as a reduction of Other assets.

($ in millions)	Balance 1/29/00	Additions	Cash Payments	Other Adjustments	Balance 1/27/01
1996 and 1997 Charges					
Department store and catalog					
Future lease obligations	8	—	(3)	(1)	4
Eckerd drugstores					
Future lease obligations and other	78	—	(7)	(3)	68
Allowance for notes receivable	25	—	—	(25)	—
Total 1996 and 1997 charges	$ 111	$ —	$ (10)	$ (29)	$ 72
2000 charges					
Department store and catalog					
Future lease obligations	$ —	$ 77	$ (8)	$ (1)	$ 68
Severance	—	16	(8)	(2)	6
Contract cancellations	—	12	(1)	—	11
Headcount reductions	—	30	(23)	2	9
Eckerd drugstores					
Future lease obligations	—	90	(20)	(7)	63
Severance	—	4	(3)	(1)	—
Other exit costs	—	16	(9)	(5)	2
Contract cancellations	—	24	—	—	24
Headcount reductions	—	5	(2)	—	3
Total 2000 charges	$ —	$ 274	$ (74)	$ (14)	$ 186
Total all charges	$ 111	$ 274	$ (84)	$ (43)	$ 258

As discussed in Note 14, the Company recorded restructuring and other charges, net, totaling $488 million in the first and fourth quarters of 2000. Liabilities of $274 were established related to these charges. During 1996 and 1997, the Company established reserves for future costs associated with certain restructuring charges. These reserves were principally related to the present value of future lease obligations for both department stores and drugstores that were identified for closing. The above table provides a rollforward of the reserves that were established for each of these charges and the status of the reserves at January 27, 2001. Costs are being charged against the reserves as incurred. Reserves are reviewed for adequacy on a periodic basis and are adjusted as appropriate based on those reviews. Cash payments related to these reserves are expected to be approximately $90 million in 2001 and the remaining cash payments are expected to be made by the end of 2005.

16 TAXES

Deferred tax assets and liabilities reflected in the Company's consolidated balance sheets as of January 27, 2001 and January 29, 2000, were measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The major components of deferred tax (assets)/liabilities as of January 27, 2001 and January 29, 2000, were as follows:

Temporary Differences

($ in millions)	2000	1999
Depreciation and amortization	$ 1,120	$ 1,104
Leases	245	318
Retirement benefits	86	47
Other, including other comprehensive (loss)	(207)	(130)
State net operating losses	(60)	—
Valuation allowance on state net operating losses	60	—
Total	$ 1,244	$ 1,339

Management's assessment is that the character and nature of future taxable income may not allow the Company to realize certain tax benefits of state net operating losses within the prescribed carryforward period. Accordingly, a valuation allowance has been established for the amount of deferred tax assets generated by state net operating losses not expected to be realized.

U.S. income and foreign withholding taxes were not provided on certain unremitted earnings of international affiliates which the Company considers to be permanent investments.

The components of the provision for income taxes are as follows:

Income Tax Expense

($ in millions)	2000	1999	1998
Current			
Federal and foreign	$(223)	$ 133	$ 68
State and local	—	(21)	31
Subtotal	(223)	112	99
Deferred			
Federal and foreign	(68)	(2)	178
State and local	(27)	(6)	—
Subtotal	(95)	(8)	178
Total	$(318)	$ 104	$ 277
Effective tax rate	(35.9%)	37.4%	38.7%

A reconciliation of the statutory federal income tax rate to the effective rate is as follows:

Reconciliation of Tax Rates

(percent of pre-tax income)	2000	1999	1998
Federal income tax at statutory rate	(35.0)	35.0	35.0
State and local income taxes, less federal income tax effect	(2.0)	(6.5)	2.8
Tax effect of dividends on allocated ESOP shares	(1.1)	(5.8)	(1.7)
Non-deductible goodwill and other	2.2	14.7	2.6
Total	(35.9)	37.4	38.7

The decline in the effective tax rate for 1999 is related primarily to the effects of tax planning strategies that have significantly reduced state and local effective income tax rates. The current year benefit decreased due to limitations on state net operating losses.

17 SEGMENT REPORTING

Reportable segments were determined based on similar economic characteristics, the nature of products and services and the method of distribution. Performance of the segments is evaluated based on segment operating profit. Segment operating profit is gross margin less SG&A expenses. Segment assets include goodwill and other intangibles; however segment operating profit does not include the amortization related to these assets. A general description of products and services offered in each segment follows:

Department stores and catalog. The majority of consolidated retail sales, net (59%, 61% and 65% for fiscal 2000, 1999 and 1998, respectively) is generated from providing merchandise and services to consumers through department stores, catalog and the Company's internet web site, JCPenney.com. Department stores, catalog and the internet generally serve the same customer, have virtually the same mix of merchandise, and the majority of catalog sales are completed in department stores. In addition, department stores accept returns from sales initiated in department stores, catalog and via the internet. JCPenney department stores, which are located principally in shopping malls, sell family apparel, jewelry, shoes, accessories and home furnishings. The Company operates approximately 1,100 department stores in all 50 states, Puerto Rico and Mexico as well as 49 Renner department stores in Brazil. Sales outside the United States were not significant.

Eckerd drugstores. Through its indirect wholly-owned subsidiary, Eckerd, the Company operates a chain of approximately 2,600 drugstores located in the southwestern and southeastern Sunbelt states including the growing retirement destinations of Florida, Texas and the Carolinas as well as the heavily populated northeastern corridor of the country. Revenues for this segment represented 41%, 39% and 35% of consolidated retail sales, net, for fiscal 2000, 1999 and 1998, respectively.

Other unallocated. Other unallocated includes Corporate unallocated expenses and real estate investment activities.

Segment Reporting

($ in millions)	Dept. Stores & Catalog	Eckerd Drugstores	Other Unallocated	Total Company
2000				
Retail sales, net	$ 18,758	$13,088	$ —	$ 31,846
Segment operating profit	254	(76)	—	178
Net interest expense			(427)	(427)
Other unallocated and acquisition amortization			(149)	(149)
Restructuring and other charges, net			(488)	(488)
Pretax loss from continuing operations				(886)
Total assets	9,659	6,967	3,116 (1)	19,742
Capital expenditures	398	301	—	699
Depreciation and amortization expense	360	213	122	695
1999				
Retail sales, net	$ 19,316	$12,427	$ —	$ 31,743
Segment operating profit	670	183		853
Net interest expense and credit operations			(294)	(294)
Other unallocated and acquisition amortization			(112)	(112)
Restructuring and other charges, net			(169)	(169)
Pretax income from continuing operations				278
Total assets	10,921	7,053	2,934 (1)	20,908
Capital expenditures	344	325	—	669
Depreciation and amortization expense	386	193	125	704
1998				
Retail sales, net	$ 19,436	$10,325	$ —	$ 29,761
Segment operating profit	920	254		1,174
Net interest expense and credit operations			(387)	(387)
Other unallocated and acquisition amortization			(94)	(94)
Restructuring and other charges, net			22	22
Pretax income from continuing operations				715
Total assets	14,396	6,361	2,848 (1)	23,605
Capital expenditures	460	283	—	743
Depreciation and amortization expense	380	139	112	631

(1) Includes assets of discontinued operations of $3,027, $2,847 and $2,737 for 2000, 1999 and 1998, respectively.

Quarterly Data (unaudited)

J. C. Penney Company, Inc. and Subsidiaries

	First		Second		Third		Fourth	
($ in millions, except per share data)	2000	1999	2000	1999	2000	1999	2000	1999
Retail sales, net	$ 7,528	$ 7,339	$ 7,207	$ 7,104	$ 7,538	$ 7,639	$ 9,573	$ 9,661
LIFO gross margin	2,224	2,302	2,105	2,104	2,169	2,416	2,317	2,636
(Loss)/income from continuing operations	(156)	131	(19)	(1)	(70)	97	(323)	(53)
(Loss)/income from continuing operations per common share, diluted[1]	(0.63)	0.48	(0.10)	(0.04)	(0.30)	0.34	(1.26)	(0.24)
Dividend per common share	0.2875	0.545	0.2875	0.545	0.125	0.545	0.125	0.2875
Price range								
High	19.75	48.38	19.69	54.44	18.25	44.88	13.38	27.50
Low	12.88	35.38	14.00	43.75	8.69	25.31	8.63	17.69
Close	13.88	45.63	16.58	43.75	10.63	25.38	12.81	18.31

All quarterly data has been restated for discontinued operations.

(1) Calculation excludes the effects of the potential conversion of outstanding preferred shares into common shares, and related dividends for all periods, because their inclusion would have an anti-dilutive effect on EPS.

Five Year Financial Summary (unaudited)

J. C. Penney Company, Inc. and Subsidiaries

(In millions, except per share data)	2000	1999	1998	1997	1996
Results for the year					
Retail sales, net	$ 31,846	$ 31,743	$ 29,761	$ 29,796	$ 22,804
Percent increase/(decrease)	0.3%	6.7%	(0.1)%	30.7%	8.2%
(Loss)/income from continuing operations	(568)	174	438	413	440
Return on beginning stockholders' equity – continuing operations	(7.9)%	2.5%	6.0%	7.0%[2]	7.6%
Per common share					
(Loss)/income from continuing operations	(2.29)[1]	0.54[1]	1.58[1]	1.49[1]	1.75
Dividends	0.825	1.92	2.18	2.14	2.08
Stockholders' equity	23.76	26.17	26.74	27.31	24.71
Financial position					
Capital expenditures	699	669	743	803	783
Total assets	19,742	20,908	23,605	23,405	22,013
Long-term debt	5,448	5,844	7,143	6,986	4,565
Stockholders' equity	6,259	7,228	7,102	7,290	5,885
Other					
Common shares outstanding at end of year	263	261	250	251	224
Weighted average common shares					
Basic	262	259	253	247	226
Full dilution	276	275	271	268	248
Number of employees at end of year *(in thousands)*	267	287	267	259	251

(1) Calculation excludes the effects of the potential conversion of outstanding preferred shares into common shares, and related dividends, because their inclusion would have an anti-dilutive effect on EPS.

(2) Assumes the completion of the Eckerd acquisition in beginning equity.

Five Year Operations Summary (unaudited)

J. C. Penney Company, Inc. and Subsidiaries

	2000	1999	1998	1997	1996
Department stores					
Number of stores – JCPenney department stores					
Beginning of year	1,143	1,148	1,203	1,228	1,238
Openings	10	14	12	34	36
Closings	(42)	(19)	(67)	(59)	(46)
End of year	1,111	1,143	1,148	1,203	1,228
Renner department stores	49	35	21	—	—
Total department stores	1,160	1,178	1,169	1,203	1,228
Gross selling space *(square feet in millions)*	114.1	116.4	116.0	118.4	117.2
Sales *($ in millions)*	$ 14,585	$ 15,026	$ 15,226	$ 15,904	$ 15,568
Sales including catalog desks *(in millions)*	17,451	18,063	18,436	19,143	18,699
Sales per gross square foot	153	155	156	157	158
Catalog					
Number of catalog units					
Department stores	1,108	1,142	1,139	1,199	1,226
Freestanding sales centers and other	508	489	512	554	569
Drugstores	92	430	139	110	107
Total	1,708	2,061	1,790	1,863	1,902
Sales *($ in millions)*	$ 4,173	$ 4,290	$ 4,210	$ 4,229	$ 4,076
Eckerd drugstores					
Number of stores					
Beginning of year	2,898	2,756	2,778	2,699	645
Openings(1)	174	266	220	199	47
Acquisitions	6	163	36	200	2,020
Closings(1)	(438)	(287)	(278)	(320)	(13)
End of year	2,640	2,898	2,756	2,778	2,699
Gross selling space *(square feet in millions)*	27.0	29.2	27.6	27.4	26.4
Sales *($ in millions)*	$ 13,088	$ 12,427	$ 10,325	$ 9,663	$ 3,160
Sales per gross square foot	444	395	350	314	261

(1) Includes relocations of 136, 208, 175 and 127 drugstores in 2000, 1999, 1998 and 1997, respectively.

Supplemental Data (unaudited)

The following information is provided as a supplement to the Company's audited financial statements. Its purpose is to facilitate an understanding of credit sales penetration rates, capital structure and cash flows.

The following table presents the sales penetration rates of the Company's private-label and third-party credit cards for department stores and catalog:

	2000		1999		1998	
($ in billions)	Sales	% of Eligible Sales	Sales	% of Eligible Sales	Sales	% of Eligible Sales
Private label card	$ 6.9	37.5%	$ 7.4	37.9%	$ 7.6	39.4%
Third-party credit cards	5.3	28.9%	5.2	27.6%	5.0	26.1%
Total	$ 12.2	66.4%	$ 12.6	65.5%	$12.6	65.5%

EBITDA. Earnings before interest, taxes, depreciation and amortization (EBITDA) is a measure of cash flow generated and is provided as an alternative assessment of operating performance. It is not intended to be a substitute for GAAP measurements. The following calculation of EBITDA includes segment operating profit before depreciation and amortization and non-comparable items, and includes credit operating results in 1999 and 1998. For a discussion of the effects of non-comparable items, see page 8.

($ in millions)	Dept. Stores & Catalog	Eckerd Drugstores	Total Segments
2000			
Retail sales, net	$ 18,758	$13,088	$ 31,846
Segment operating profit	254	(76)	178
Non-comparable items	92	116	208
Depreciation and amortization	360	213	573
EBITDA	$ 706	$ 253	$ 959
% of retail sales, net	3.8%	1.9%	3.0%
1999			
Retail sales, net	$ 19,316	$12,427	$ 31,743
Segment operating profit	670	183	853
Non-comparable items	20	119	139
Depreciation and amortization	386	193	579
Credit operating results	313	—	313
EBITDA	$ 1,389	$ 495	$1,884
% of retail sales, net	7.2%	4.0%	5.9%
1998			
Retail sales, net	$ 19,436	$10,325	$ 29,761
Segment operating profit	920	254	1,174
Non-comparable items	—	114	114
Depreciation and amortization	380	139	519
Credit operating results	224	—	224
EBITDA	$ 1,524	$ 507	$2,031
% of retail sales, net	7.8%	4.9%	6.8%

Capital structure. The Company's objective is to maintain a capital structure that will assure continuing access to financial markets so that it can, at reasonable cost, provide for future needs and capitalize on attractive opportunities for growth.

Debt to capital

($ in millions)	2000	1999	1998
Short-term debt, net of cash investments	$ (935)	$ (1,092)[1]	$ 1,671
Long-term debt, including current maturities	5,698	6,469	7,581
	4,763	5,377	9,252
Off-balance-sheet debt:			
Present value of operating leases	3,469	3,293	2,715
Securitizations of receivables, net	—	—	146
Total debt	8,232	8,670	12,113
Consolidated equity	6,259	7,228	7,102
Total capital	$14,491	$ 15,898	$19,215
Percent of total debt to capital	56.8%	54.5%	63.0%[2]

(1) Includes asset-backed certificates of $267 million.

(2) Upon completion of the Genovese acquisition, the Company's debt to capital ratio decreased to 62.3%.

The Company's debt to capital percentage increased in 2000 due to the decline in consolidated equity as a result of the net loss recorded for the year. The Company's debt to capital percentage improved in 1999 primarily as a result of the sale of the Company's private label credit card accounts receivable. The Company expects the percentage to improve over the next several years.

Credit ratings. As of March 22, 2001, ratings were as follows:

	Long-term Debt	Commercial Paper
Moody's Investors Service	Ba2	Not-Prime
Standard & Poor's Corporation	BBB-	A3
Fitch Investors Service, Inc.[1]	BBB-	F3

(1) Under review.

Corporate Governance

The Company is aware that many of its stockholders are interested in matters of corporate governance. JCPenney shares this interest and is, and for many years has been, committed to assuring that the Company is managed in a way that is fair to all its stockholders and which allows its stockholders to maximize the value of their investment by participating in the present and future growth of JCPenney. The Corporate Governance Committee of the Board of Directors reviews developments in the governance area as they affect relations between the Company and its stockholders and makes recommendations to the full Board regarding such issues.

Independent board of directors. In keeping with its long-standing practice, the Company's Board continues to be an independent board under any reasonable definition. Nominees for directors are selected by a committee composed entirely of directors who are not Company employees. The wide diversity of expertise, experience and achievements that the directors possess in business, investments, large organizations and public affairs allows the Board to most effectively represent the interests of all the Company's stockholders.

Independent committees. The Audit Committee, Corporate Governance Committee, the Finance Committee, and Human Resources and Compensation Committee, all standing committees of the Board of Directors, are composed entirely of directors who are not employees of the Company. These committees, and the entire Board, consult with, and are advised by, outside consultants and experts in connection with their deliberations as needed.

Executive compensation. A significant portion of the cash compensation received by the Company's executive officers consists of performance incentive compensation payments derived from compensation plan "values." The amounts of these plan values are directly related to the sales and earnings of the Company and, consequently, vary from year to year based upon Company performance. The total compensation package for the Company's executive officers is set by the Human Resources and Compensation Committee, which is composed entirely of directors who are not employees of the Company and which receives the advice of independent outside consultants. Please refer to the Company's 2001 Proxy Statement for a report from the Company's Human Resources and Compensation Committee describing how compensation determinations are made.

Confidential voting. The Company has a long-standing confidential voting policy. Under this policy, all proxy (voting instruction) cards, ballots and vote tabulations, including telephone voting, that identify the particular vote of a stockholder are kept secret from the Company, its directors, officers and employees. Proxy cards are returned in envelopes directly to the tabulator, who receives and tabulates the proxies. The final tabulation is inspected by inspectors of election who are independent of the Company, its directors, officers and employees. The identity and vote of a stockholder is not disclosed to the Company, its directors, officers or employees, or any third party except (i) to allow the independent election inspectors to certify the results of the vote; (ii) as necessary to meet applicable legal requirements and to assert or defend claims for or against the Company; (iii) in the event of a proxy solicitation based on an opposition proxy statement filed, or required to be filed, with the Securities and Exchange Commission; or (iv) in the event a stockholder has made a written comment on such material.

Corporate Citizenship

Community relations. The Company remains committed to investing in community programs that are important to its customers and encouraging associates to invest their talents in their communities. The JCPenney 2000 United Way campaign raised $15 million in associate and unit pledges for local United Ways nationwide. JCPenney Afterschool is a partnership committed to providing youth with high-quality afterschool programs. A more complete review of the JCPenney community relations efforts is available on-line at http://www.jcpenney.net/company/commrel.

Diversity. JCPenney has been a corporate member of the National Minority Supplier Development Council (NMSDC) since 1972 and continues to invest in the NMSDC's Business Consortium Fund, which makes loans to minority-owned businesses. The Company is a founding member of the Women's Business Enterprise National Council. In 2000, the Company's purchases from minority-owned and women-owned businesses totaled over $500 million.

Environmental affairs. Our commitment to doing business in a responsible manner includes a determination to make environmental, health and safety considerations an important factor in corporate decision making and policy. Copies of "Matters of Principle: JCPenney and Environmental Responsibility," including the Company's statement on environmental principles, and JCPenney Community Partners may be obtained as indicated on the inside back cover of this Annual Report.

Other Corporate Information

Equal Employment Opportunity

	Total Employed		% Female		% Minority	
	2000	1996	2000	1996	2000	1996
Officials, managers and professionals	29,930	29,157	49.5%	48.1%	20.2%	16.7%
Management trainees	477	412	55.3%	72.1%	31.4%	31.8%
Sales workers	132,453	135,923	83.5%	85.0%	27.8%	25.2%
Office and clerical workers	35,943	39,478	86.2%	87.3%	26.4%	22.5%
Technicians, craft workers, operatives, laborers and service workers	55,575	44,357	69.3%	67.2%	33.4%	30.0%
Total	254,378	249,327	76.8%	77.9%	27.9%	24.6%

Equal employment opportunity. The Company adheres to a policy of equal employment opportunity. The above employment information summary represents associates of J. C. Penney Company, Inc. and subsidiaries, including DMS associates but excluding temporary associates in JCPenney department stores and associates in Brazil, Canada, Mexico, Puerto Rico and the United Kingdom. The information provided delineates minority and female representation in major job categories.

Supplier legal compliance. JCPenney has a comprehensive and effective program for promoting compliance with labor and other laws in the factories used by its suppliers in the United States and abroad. This program is described in The JCPenney Supplier Legal Compliance Program, which may be obtained as indicated on the inside back cover of this Annual Report.

Annual Meeting. The Company's Annual Meeting of Stockholders will be held at 10:00 a.m. local time, Friday, May 18, 2001, at the Company's Home Office located at 6501 Legacy Drive, Plano, Texas 75024. You are cordially invited to attend. The Annual Report and Proxy Statement, including a request for proxies, were mailed to stockholders on or about April 12, 2001.

Board of Directors

Allen Questrom
Chairman of the Board and Chief Executive Officer

M. Anthony Burns 1,2,4
Chairman and
Retired Chief Executive Officer, Ryder System, Inc.

Thomas J. Engibous 3, 4
Chairman, President, and Chief Executive Officer,
Texas Instruments Incorporated

Kent B. Foster 3
President and Chief Executive Officer, Ingram Micro Inc.

Vernon E. Jordan, Jr. 1,2
Managing Partner, Lazard Freres & Co.; Of Counsel,
Law Firm of Akin, Gump, Strauss, Hauer & Feld, L.L.P.

Jane C. Pfeiffer 2,3
Independent Management Consultant

Ann W. Richards 1
Senior Advisor, Law Firm of Verner, Liipfert, Bernhard,
McPherson & Hand, and Formerly Governor of Texas

Francisco Sanchez-Loaeza 1,3,4
Retired Chairman, President and Chief Executive Officer,
Panamerican Beverages, Inc.

Charles S. Sanford, Jr. 1,2,3,4
Retired Chairman and Chief Executive Officer, Bankers Trust
New York Corporation and Bankers Trust Company

R. Gerald Turner 2
President, Southern Methodist University

Executive Committee

Allen Questrom
Chairman of the Board and Chief Executive Officer

Vanessa J. Castagna
Executive Vice President and Chief Operating Officer for
JCPenney Stores, Merchandising and Catalog

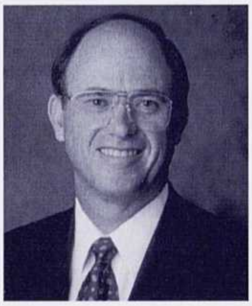
Robert B. Cavanaugh
Executive Vice President and Chief Financial Officer

Gary L. Davis
Executive Vice President, Chief Human Resources and
Administration Officer

J. Wayne Harris
Chairman of the Board and Chief Executive Officer,
Eckerd Corporation

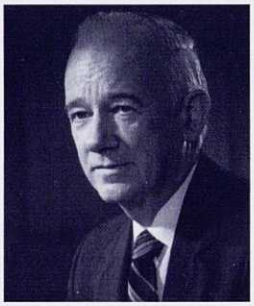
Charles R. Lotter
Executive Vice President, Secretary and General Counsel

Stephen F. Raish
Executive Vice President and Chief Information Officer




We gratefully acknowledge the dedication and many contributions of two retiring Directors: Jim Oesterreicher (left), who retired as Chairman and Chief Executive Officer following a 36-year JCPenney career; and Francisco Sanchez-Loaeza, who joined our Board in 1998.

In Memoriam:



We sadly note the passing of Don Seibert, our partner, friend and fifth Chairman. Among his many accomplishments, he led the repositioning of Department Stores and Catalog and the introduction of high technology to the Company. He was 77.

Board Committees

1. Member of the Audit Committee of the Board of Directors. This committee recommends to the Board of Directors for stockholder approval the independent auditors for the annual audit of the Company's consolidated financial statements. The committee also reviews the independent auditors' audit strategy and plan, scope, fees, audit results, performance and independence of the auditors, and non-audit services and related fees; internal audit reports on the adequacy of internal accounting controls; the Company's ethics program; status of significant legal matters; the scope of the internal auditors' plans and budget and results of their audits; and the effectiveness of the Company's program for correcting audit findings.

2. Member of the Corporate Governance Committee. This committee considers matters of corporate governance and reviews developments in the governance area as they affect relations between the Company and its stockholders. It makes recommendations to the Board with respect to the size, composition, organization, responsibilities and functions of the Board and its directors, the qualifications of directors, candidates for election as directors and the compensation of directors. The committee also assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest.

3. Member of the Human Resources and Compensation Committee. This committee reviews and administers the Company's annual and long-term incentive compensation plans, makes recommendations in areas concerning personnel relations, and takes action or makes recommendations with respect to the compensation of Company executive officers, including those who are directors. The committee reviews the annual financial condition and investment performance results of the Company's retirement and welfare plans, including the annual actuarial valuation reports applicable to such plans. It is also the committee that oversees the administration and operation of certain of the Company's retirement and welfare plans.

4. Member of the Finance Committee. This committee is responsible for reviewing the Company's financial policies, strategies, and capital structure.

copies of the following are available at JCPenney.net:

- The Company's Annual Report
  on Form 10-K and Quarterly Reports on Form 10-Q
  filed with the Securities and Exchange Commission

- JCPenney Community Partners,
  the Company's social responsibility and charitable contribution report

copies of the following are available upon request:

- The Partnership Program, opportunities for
  minority- and women-owned businesses

- Matters of Principle: JCPenney and Environmental Responsibility

- The JCPenney Supplier Legal Compliance Program

- JCPenney Funding Corporation's Annual Report

Requests for the above
should be addressed to:

J. C. Penney Company, Inc.
P. O. Box 10001
Dallas, TX 75301-4301

Stockholder Relations

Inquiries about your stockholder records should be forwarded to:

Mellon Investor Services LLC
P. O. Box 3316
South Hackensack, NJ 07606
800-842-9470
View your account on-line at www.mellon-investor.com

Exchange Listing

The New York Stock Exchange
Ticker symbol: JCP

Web Site

www.JCPenney.net

Sales Release Dates for Fiscal 2001

release date	*sales period*
March 1	February
April 12	March
May 10	April
June 7	May
July 12	June
August 9	July
September 6	August
October 11	September
November 8	October
December 6	November
January 10, 2002	December
February 7, 2002	January 2002

Earnings Release Dates for Fiscal 2001

release date	*quarter*
May 15	1st quarter
August 14	2nd quarter
November 13	3rd quarter
February 21, 2002	4th quarter

Weekly sales updates are available by calling 972-431-5500 or by accessing our web site.

Security analyst and investment professional contact:

Eli Akresh
972-431-2207
eakresh@jcpenney.com

JCPenney®